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The magazine of the Museum of American Finance

The Woman Who Dueled with Aaron Burr…and Won

The Messages of Money

Private Governance (and Why It Works)

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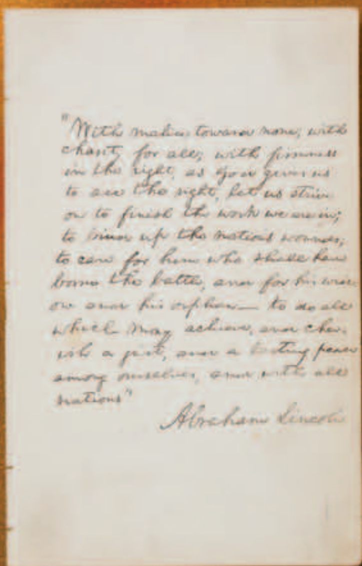

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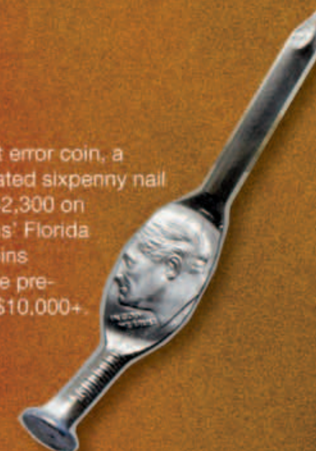

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FINANCIAL HISTORY

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MU$EUM OF AMERICAN FINANCE

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DEPARTMENTS

ON THE COVER

Eliza Jumel in Rome in 1854, with a great-niece and great-nephew, whom she raised. Painted by Alcide Ercole. See article, page 13.

Courtesy Morris-Jumel Mansion. Photo: Ira W. Martin, courtesy of the Frick Art Reference Library.

Museum Founder Honored with IFFM Lifetime Achievement Award

Message to Members

David J. Cowen | President and CEO

We kicked off 2016 with our annual gala on January 12, which was record-setting in many ways. More than 430 Museum supporters attended as we honored Chuck Schwab with our new Financial Innovation Award and Robert Rubin with the Whitehead Award (*see article, page 6*). This year's gala was special for another reason as well, as our Board Chair Dick Sylla and Advisory Board Chair Bill Donaldson presented our founder, John Herzog, with a Lifetime Achievement Award from the International Federation of Finance Museums (IFFM). John received a standing ovation for his pioneering work in the field of finance museums, which now exist in more than 15 countries around the world. When John founded our Museum several decades ago, it was the first of its kind.

The IFFM met in Beijing in October, and our Vice Chair, Andrea de Cholnoky, represented our Museum. The Chinese were phenomenal hosts, and they have clearly appreciated the concept that John introduced. They currently have more than two dozen finance museums in their country alone! Andrea was able to visit several of these museums as part of an incredible multi-day series of festivities. In addition to accepting John's award on his behalf, Andrea was also able to accept an award I received as a founder of the IFFM. We are all looking forward to next year's conference in Mexico City.

Alexander Hamilton continues to enjoy a huge resurgence thanks to the incredibly successful Broadway musical. The creator of the show, Lin-Manuel Miranda, filmed part of a PBS documentary about the show at our Museum, which is scheduled to air this fall. Be on the lookout!

This edition of *Financial History* is likely our penultimate issue in print. As I have relayed in previous columns, we will shortly be shifting to a fully digital version. I encourage you to check out the full-color digital edition online at www.moaf.org/financialhistory, and to share it with your friends and colleagues.

And, finally, we are most grateful to our programming sponsors, who enable us to continue to offer top notch events. In 2015 our members heard from Nobel laureates Robert Shiller and Joseph Stiglitz, former Treasury Secretary Larry Summers, NYSE President Tom Farley and prominent value investors Seth Klarman and Bill Ackman, as well as dozens of other high-profile business leaders, professors, authors, journalists and former government officials. This year will bring the same quality programming, as we will hear from the Acting Provost of the Smithsonian, Richard Kurin and Senator Bob Kerrey, to name just two in the next few months. We hope you will take advantage of these opportunities, and I look forward to seeing many of you here at 48 Wall Street. $

Elsa Ruiz

Museum founder John Herzog (center) receives the IFFM's Lifetime Achievement Award. The award was presented at the 2016 Gala by Board Chair Dick Sylla and Advisory Board Chair Bill Donaldson.

Vice Chair Andrea de Cholnoky (second from left) accepts David Cowen's award on his behalf at the IFFM Conference in Beijing, China.

FEB 9 1585 The Frankfurt Stock Exchange (Frankfurter Wertpapierborse) is established.

FEB 10 1938 "Fannie Mae" is born, as the National Mortgage Association of Washington is created as a subsidiary of the Reconstruction Finance Corp.

"Worth Its Weight: Gold from the Ground Up" Exhibit Opens

On November 19, more than 250 members and guests attended the opening of the Museum's new exhibit, "Worth Its Weight: Gold from the Ground Up." Special guests included renowned jewelry artist Sidney Mobell, creator of the solid gold Monopoly set and 17 other works in the exhibit, many of which are on loan from the Smithsonian National Museum of Natural History. Harold Closter, director of Smithsonian Affiliations, also attended the opening and delivered remarks, highlighting two dozen objects on loan from three Smithsonian museums including a duplicate of the "Sounds of Earth" gold record created for the two *Voyager* spacecraft, on loan from the National Air & Space Museum.

"Worth Its Weight" is the Museum's largest exhibit to date, occupying three galleries and featuring hundreds of objects on loan from more than 40 public and private collections around the world. In addition to the Smithsonian, other lenders in attendance at the opening included representatives from the Tiffany & Co. Archives, the Yeshiva University Museum, the International Precious Metals Institute (IPMI) and Heraeus, as well as numerous individual lenders and contemporary jewelry designer Marla Aaron, whose work is featured in the exhibit.

"Worth Its Weight" will be on view through December 2016. More information is available at www.moaf.org/gold. $

Alan Barnett

Left to right: Museum President David Cowen, renowned jewelry artist Sidney Mobell and Director of Smithsonian Affiliations Harold Closter at the opening of the "Worth Its Weight" exhibit in November.

MUSEUM OF AMERICAN FINANCE CORPORATE SUPPORT

The Museum gratefully recognizes the support in the past year of the following corporate funders to help advance our commitment to preserving, exhibiting and teaching the power and value of American finance.

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FEB 16 1990 Cisco Systems, Inc. goes public on Nasdaq, selling 2.8 million shares at an initial offering price of $18 per share. By the end of the decade, the stock has increased in value by more than 30,000%.

FEB 21 1914 The Hong Kong Stock Exchange (formerly the Association of Stock Brokers in Hong Kong) is established.

Museum Honors Charles Schwab and Robert Rubin at 2016 Gala

More than 430 people attended the Museum's 2016 Gala on January 12, which honored the achievements of two financial leaders in both the public and private sectors. The event began with cocktails at the Museum, giving guests the opportunity to view the new gold exhibit, and then continued with dinner at Cipriani Wall Street.

At the 2016 Gala, the Museum inaugurated the Financial Innovation Award, which recognizes individuals who have introduced new markets or new financial instruments to the US financial system. The first honoree for this Award was Charles R. "Chuck" Schwab, founder and chairman of The Charles Schwab Corporation. Often credited with "democratizing" investment, Mr. Schwab has driven countless innovations in the investment services industry designed to help individuals make the most of saving and investing. Mr. Schwab was introduced by his long-time friend and colleague George Roberts, co-founder of Kohlberg Kravis Roberts (KKR).

Robert E. Rubin was also honored as the eighth recipient of the Whitehead Award for Distinguished Public Service and Financial Leadership. Named after John C. Whitehead, former Deputy Secretary of State and co-chair of Goldman Sachs, the Whitehead Award recognizes leaders who have both demonstrated great achievement in the field of finance and served with distinction in the public sphere. Mr. Rubin spent 26 years at Goldman Sachs, ultimately as co-senior partner, before joining the Clinton Administration as the first director of the National Economic Council. In January 1995, he became the nation's 70th Secretary of the Treasury. Mr. Rubin was introduced by former Secretary of the Treasury Timothy Geithner.

"I cannot think of two more iconic figures than Robert Rubin and Chuck Schwab to receive these prestigious awards," said Museum President David Cowen. "Mr. Rubin, through his leadership on Wall Street and within the federal government, is ideally suited to receive the Whitehead Award. And Charles Schwab is the perfect inaugural Financial Innovation Award recipient, given his many creations that assisted and championed the individual investor."

The 2016 Gala was the Museum's most successful to date in both attendance and revenue. The event raised more than $1.25 million to support the Museum's educational and programmatic initiatives. $

1


2


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Photos: Elsa Ruiz

MAR 9 2000 The Nasdaq Composite Index closes above 5000 for the first time, finishing the day at 5046.86, up 149.60 — a mere 48 trading days after breaking the 4000 barrier.

MAR 14 1821 On one of the quietest days in Wall Street history, the market is open, but not a single share of stock changes hands.


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5

6

Financial History Remembers Former Editor Diana Herzog

Diana Herzog, long-time editor of *Financial History* magazine, passed away from complications due to a stroke on January 13, at the age of 76.

Diana was involved with the Museum since its inception, both as the wife of founder John Herzog and through her career in collectible financial documents. She began her work in this field at R.M. Smythe & Co., first researching obsolete and inactive securities and then branching out into the field of autographs as the firm expanded to become a leading auction house. Diana was a formidable businesswoman, securing important consignments for the firm and assembling autographs of British royalty, writers and poets, thereby acquiring her nickname, "Lady Di."

In 1978, Smythe began publishing this magazine (then called *Friends of Financial History*), and Diana was a founding editor. The Museum took over the publication in 1990, and Diana became an active member of the magazine's growing editorial board. In 2003, she stepped down from active service on the board and became editor *emeritae*.

Diana will be missed by all who knew her, especially by John, her husband of over 50 years, and her daughters, Mary and Sarah, and their families. $

1. The Gala began with cocktails at the Museum, enabling guests to view the exhibits.
2. Charles Schwab and his family at the 2016 Gala.
3. 2016 Gala honorees Charles Schwab and Robert Rubin.
4. David Cowen and Dick Sylla present the Financial Innovation Award to Charles Schwab.
5. Former Secretary of the Treasury Tim Geithner introduces Robert Rubin.
6. Robert Rubin, recipient of the 2016 Whitehead Award, speaks at the Gala.

MAR 17 1997 "Old economy" stocks Bethlehem Steel, Texaco, Westinghouse Electric and Woolworth are replaced on the Dow Jones Industrial Average with Hewlett-Packard, Johnson & Johnson, Travelers Group and Wal-Mart.

MAR 25 1809 The first bank failure in the United States is reported when the Farmers Exchange Bank of Glocester, Rhode Island, goes bust after issuing $800,000 in fraudulent loans against a total capital of $45.

Bull Market Baubles: Deal Toys and the Culture of Wall Street

By Sarah Poole

Deal toys, also known as tombstones, are commemorative toys issued by investment banks to celebrate mergers, initial public offerings (IPOs) and financing. The idea for these desktop souvenirs evolved from financial "tombstone advertisements" that commonly appeared in newspapers as early as the 19th century. Tombstone ads lacked images or flourish and would be formatted to fit into the width of a single column. This format was commonly used to announce IPOs and other financial transactions.

In the 1960s, banks began commemorating these announcements by placing them within clear slabs of a new type of plastic called Lucite. Lucite is a trademark name for polymethyl methacrylate, a hard plastic that can be molded and colored and is also resistant to weathering. Industrially, Lucite is used to make components such as aircraft windows, boat windshields and car taillights.

Although tombstones started out as simple slabs, they quickly progressed into more colorful and whimsical designs. Many bankers collected these toys, which served as status symbols and subtle marketing for their successful services. Tombstones became so popular that banks would compete to see who could come up with the most creative concepts. While the majority continued to be made of plastics, some firms also incorporated metal, ceramic and glass deal toys to distinguish themselves from others. Some firms, such as Lehman Brothers, even hired full-time staff to design their deal toys.

Production of deal toys dropped significantly after the financial crisis of 2008. One reason is that there were simply less deals to celebrate. More significantly, however, is that Wall Street came under heavy criticism from the media and the public for excessive spending and grandiose culture. Deal toys specifically have been criticized as being ostentatious rewards with a hefty price tag.

For example, to celebrate a deal involving Universal Studios, J.P. Morgan ordered a batch of 10 x 15″ Lucite dinosaur heads (referencing *Jurassic Park*) that cost $300 each. Some deal toys also outwardly expressed flippant attitudes toward major financial deals. One Austin Powers-themed

Photo: Robert Dinkelmann

APR 17 1837

Three weeks before the stock market crash of 1837, John Pierpont Morgan is born in Hartford, CT. The sickly baby grows up to become one of the most powerful financiers in American history.

tombstone in the Museum's collection celebrates a mortgage deal with quotes such as, "An Evil Deal with Evil Mortgages. I Like it."

Deal toys still have their defenders, however. Writing for the *Socializing Finance* blog, Daniel Buenza, a lecturer at the London School for Economics, argues that deal toys are essential to the functioning of investment banks. He states that because of the fast-paced and competitive environment associated with closing deals, the teams of junior bankers assigned to do such hard work need these mementos to serve as motivation and to build team cohesiveness. The status-building prospect of collecting deal toys instills a sense of pride amongst employees.

Regardless of how you view them, these creative objects offer unique insight into the culture of investment banking.

The Museum of American Finance has in its permanent collection more than 300 examples of tombstones, the majority of which were received in a 2012 donation from Ed Murphy. $

Sarah Poole is the Museum of American Finance's Collections Manager.

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Photo: Robert Dinkelmann

Photo: Robert Dinkelmann

APR 21 1982 Futures contracts on the S&P 500 Index become available for the first time, as they open for trading on the Chicago Mercantile Exchange.

APR 24 1917 The first Liberty Loan Act authorizes the US Treasury to borrow up to $5 billion at 3.5%. The rate is so low that most experts predict failure, but more than four million Americans pay $3 billion for them.

Montaigne's Essay *On Coaches:* Old World Greed in the New World

By Brian Grinder and Dan Cooper

"Personal Finance: Philosophy and Practice" is a unique course offered at Eastern Washington University. Unlike other personal finance courses, this course requires students to read excerpts from the works of philosophers on topics such as wealth, greed, self-interest and other finance-related topics. One of my [Brian's] favorite readings in this course is the essay *On Coaches* by Michel de Montaigne. Students, however, struggle with the essay because of its structure, which María Garcés has described as a disconcerting, rambling, inextricable chaos. In spite of its structure, reading *On Coaches* is well worth the effort because it focuses the reader's attention on a number of issues that are still relevant today without resorting to the religious justifications for expansion and conquest that prevailed in Montaigne's day and age.

Sarah Bakewell describes Montaigne as "a nobleman, government official and winegrower who lived in the Périgord area of southwestern France from 1533 to 1592." She goes on to note that a destructive religious civil war cast a shadow over Montaigne while he was writing his famous *Essays*. Those essays, according to Montaigne chronicler Saul Frampton, rank alongside Shakespeare's plays and Cervantes's *Don Quixiote* as "the most important literary works of the Renaissance."

In his introductory note to *On Coaches*, translator M.A. Screech provides an important insight into the essay: "Coaches…were the symbols of luxury. They are contrasted with the simplicity of those American Indian cultures which had never invented the wheel, had no horses and used gold for its beauty alone. Their simplicity emphasized the horrors of the Spanish conquest of Peru, with its naked cruelty and avarice." Garcés sees coaches as representing "the devastating intrusion of the Old World into the New World. The war chariots of Europe launching their attack upon the peoples of America and their civilizations, which did not know the wheel."

Frampton takes the metaphor further arguing that coaches "…represent a separation from others, economically and proxemically, and hence epitomize the individualistic, acquisitive estrangement of [Montaigne's] age." The Spanish conquest of Latin America was all about personal aggrandizement.

As summer approached in 1532, Atahualpa was heading south to the city of

© Stefano Bianchetti/Corbis

Portrait of Michel de Montaigne, author of *On Coaches.*

Cuzco to be crowned king of the 90-year-old Inca Empire; he had defeated his half-brother Huascar in the civil war that broke out after their father, Huayna Capac, died in 1527. On the way, Atahualpa stopped to take in the baths at Cajamarca, where he encountered strange bearded men who rode even stranger beasts. This encounter with the Spanish conquistadors was about to change Atahualpa's life dramatically. He never made it to Cuzco.

Francisco Pizarro set out with fewer than 200 men into unknown South American territory (present day Peru) to search for gold. Hernando Cortes's success in Mexico fueled gold fever in other Spanish explorers who were anxious to hit the next jackpot. Pizarro did just that in Peru, and it happened in the most unusual way. When Pizarro encountered Atahualpa at Cajamarca, the Incan army accompanying the new ruler consisted of up to 40,000 soldiers, yet Pizarro's small band was able to inflict enormous casualties on this vast Incan army. According to historian Hugh Thomas, "No Spaniards seem to have died, but the Indians killed were without limit." Estimates run from 2,000-8,000 deaths. Montaigne ends his essay, *On Coaches*, with a description of Atahualpa's capture:

> Instead of using coaches or vehicles of any kind they [the Incan Kings] have themselves carried on the shoulders of men. The day he was captured, that last King of Peru was in the midst of his army, borne seated on a golden chair suspended from shafts of gold. The Spaniards in their attempts to topple him (as they wanted to take him alive) killed many of his bearers, but many more vied to take the places of the dead, so that, no matter how many they slaughtered, they could not bring him down until a mounted soldier dashed in, grabbed hold of him and yanked him to the ground.

Instead of being crowned king, Atahualpa was now Pizarro's prisoner. He mistakenly thought that if he paid a ransom to these foreign devils, they would free him and leave his country forever. He could then continue on to Cuzco. When Pizarro asked Atahualpa how much gold he could muster, Atahualpa reached his hand as high as he could on the wall in the room where the interrogation took place and drew a chalk line on it indicating that he could fill the room up to the line with gold.

Illustration of Atahualpa's initial confrontation with the conquistadors at the royal baths of Cajamarca.

Pizarro and his companions were overjoyed and became increasingly so after Atahualpa sent out the word to bring gold to Cajamarca. According to Thomas, the Incas assembled a ransom of about 3,000 cubic feet of gold over the next two months, but Atahualpa remained a prisoner. Pizarro, never intending to free him, knew that if he could control Atahualpa, he could control the entire Inca Empire. A few months later, the conquistadors strangled Atahualpa to death because they feared he had sent secret messages to his army in the north to come and rescue him. He was simply too much of a liability.

Montaigne's account of the conquistadors is groundbreaking because of its unflagging condemnation of their activities in the New World. Others had defended the conquistadors' actions on religious grounds, but Montaigne would have none of it. Shortly after the discovery of the New World, the king of Spain, in an effort to curb Spanish brutality, drew up a document known as the *Requerimiento*. The king commanded the conquistadors to read the *Requerimiento* to all native peoples before conquest commenced.

Author Kim MacQuarrie describes the *Requerimiento* as "both a justification and an ultimatum." It claimed the divine right of the pope to rule the world. Since the pope had granted the right to rule this portion of the world to Spain, forcible conversion to Christianity or extermination from the face of the earth awaited all who refused to submit to Spanish rule.

Montaigne was Roman Catholic, but he refused to use the church as justification for brutal behavior. In the essay, he describes the South American natives:

> And as for their piety, observance of the laws, goodness, liberality, loyalty and frankness: well, it served us well that we had less of that than they did; their superiority in that ruined them, sold them and betrayed them. As for bravery and courage; as for resolution, constancy and resistance to pain, hunger and death, I would not hesitate to compare the examples provided by them with the most celebrated ones of the Ancients written in the annals of our own world on this side of the seas.

Montaigne laments that the New World was not discovered by the ancient Greeks or Romans who would have "gently polished those peoples…not only bringing to them their world's arts of farming the land and adorning the cities…but also bringing to the natives of those countries the virtues of the Romans and the Greeks." Instead, the conquerors from the Old World "took advantage of their ignorance and lack of experience to pervert them more easily towards treachery, debauchery and

cupidity, toward every kind of cruelty and inhumanity, by the example and model of our own example."

Today, the "individualistic, acquisitive estrangement" of our age continues to create problems for us. The conquistadors in their unbridled greed eventually destroyed themselves along with the native South American cultures they conquered. We would do well to heed the warnings of Montaigne and think carefully about what our own greed has the potential to destroy. $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History's *editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

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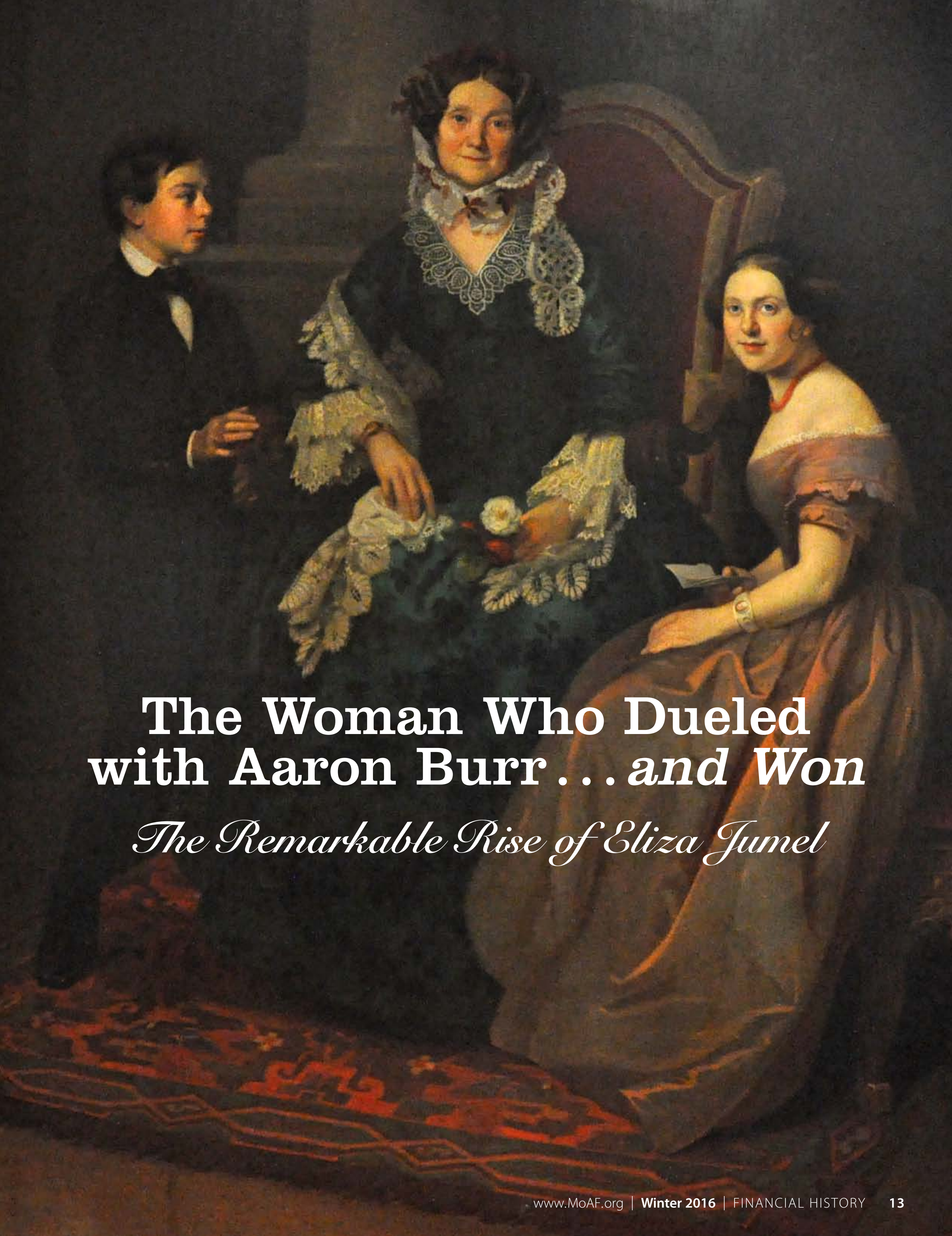
Courtesy Morris-Jumel Mansion. Photo: Ira W. Martin, courtesy of the Frick Art Reference Library.



The Woman Who Dueled with Aaron Burr...*and Won*

The Remarkable Rise of Eliza Jumel

By Margaret A. Oppenheimer

Photo: Tom Stoelker. Courtesy Morris-Jumel Mansion.

The country home Eliza and Stephen Jumel purchased in 1810, today a museum.

The press was on hand when 78 lots of the famous Jumel estate — among the last to be sold — were auctioned at New York City's Real Estate Exchange on April 3, 1888. The commentary from a reporter for the *New York Herald* was as breathless as the sale room itself: "So immense was the crowd that it was difficult for the auctioneer's clerks and the representatives of the press to attend to their work. Several of the numerous ladies present had to be taken either to the gallery or to some of the auctioneer's stands to save them from being actually crushed."

Not only were professional men of every ilk in attendance, from politicians and lawyers to bookmakers and tavern keepers, but "heirs of estates adjacent to the property offered came in troops, and families with cousins and aunts only swelled the mass in such a manner as to make the atmosphere of the Exchange almost intolerable."[1]

The properties up for sale had been owned by a New Yorker, then practically a household name, but mostly forgotten today. Born in poverty in Providence, Rhode Island, in 1775, Betsy Bowen had fought her way up from the workhouse and indentured servitude to become Madame Eliza Jumel: a well-traveled grande dame conversant in two languages, an art collector who claimed friends at the French court, the wife (briefly) of a vice president of the United States and a landed proprietor who owned a good chunk of Upper Manhattan. By the time she died at age 90 on July 16, 1865, she was one of New York's wealthiest women.

Her real estate holdings in the city were immense. In the Washington Heights neighborhood of Upper Manhattan, Jumel owned an elegant mansion built in 1765, as well as unimproved acreage that added up to a staggering 783 city lots. Farther downtown she possessed two 20-by-60-foot built-up lots on the northwest corner of 41st Street and Seventh Avenue, just south of what would become Times Square.

Most remuneratively, she had holdings in the Financial District: 150 Broadway (three blocks north of Wall Street) and just around the corner, 71 and 73 Liberty Street. All three buildings were leased profitably as retail space and offices. Nor should we forget her upstate coda: 175 city and rural lots — amounting to more than 200 acres of land — in the bustling resort town of Saratoga Springs, together with a comfortable summer home, Rose Cottage. In a testimony to the drawing power of longevity and wealth, *The New York Times* honored her with an obituary of over 3,000 words.

Jumel attended George Washington's inauguration, the *Times* said, and was called by Benjamin Franklin his "fairy queen." She charmed Thomas Jefferson and the Marquis de Lafayette, and enchanted Patrick Henry, too.[2] True? None of it. But the legends obscured a more interesting story — the remarkable rise of a self-made woman.

The classic American rags-to-riches story has a male protagonist: a poor boy who works his way to wealth. The model didn't work for poor girls, because the jobs available to them paid poorly and offered little upward mobility. Marrying up was uncommon, too. Without birth or money to offer, young women from struggling households rarely attracted potential husbands better off than they were themselves. Eliza Jumel was the rare exception, a poor girl who made good. Her success demanded a rare mix of determination and intelligence, coupled with a willingness to do whatever it took to get ahead.

The young Betsy Bowen began her ascent by moving to New York City. There, where no one knew her, she shed her old identity, rebranding herself more elegantly as Eliza. She worked at least briefly as an extra in the theater. What she achieved was not star status on the stage, but something better for a woman who hoped to advance in the world. She met — whether at the theater or in the neighborhood where she lived — a wealthy, French-born merchant, Stephen Jumel. Their marriage in 1804 — a connection she knitted without parents to negotiate for her, financial assets to flaunt or prominent family connections to offer — vaulted Eliza into the upper middle class.

The Jumels purchased a country seat in today's Upper Manhattan as well as swaths of farmland and the parcel of prime downtown real estate at the corner of Broadway and Liberty Street that would one day be the most valuable item in Eliza's estate. Jumel enjoyed the trappings of prosperity. She kept a carriage, worshiped at Trinity Church (after a strategic conversion to Episcopalianism) and gave a niece, Mary, whom she and Stephen took into their home as an adoptive daughter, all the advantages of a genteel upbringing. Acceptance into New York's elite circles proved elusive. But her origins weren't as closely scrutinized when the little family moved to Stephen's native France after the fall of Napoleon I.

Previous page: Eliza Jumel in Rome in 1854, with a great-niece and great-nephew, whom she raised. Painted by Alcide Ercole.

Photo Trish Mayo

The Jumel crypt at Trinity Cemetery & Mausoleum in Upper Manhattan.

In Paris, Jumel took pleasure in building a sizable collection of European paintings. She socialized with aristocrats at the court of Louis XVIII and received a bow of recognition from the king. The economy was shaky, however, collapsing first under the Panic of 1819 and then the Panic of 1825. Stephen put his and his wife's country home in New York and the 36 acres of land immediately surrounding it in trust for Eliza, possibly at her urging. They would be hers for life, free to manage as she wished. Even if Stephen predeceased her, she would not have to worry about spending her widowhood in penury. But for a woman who had known poverty, a mansion and 36 acres were not enough. Jumel acted to ensure her future security.

In 1826 she returned to the United States from France to look after her and Stephen's other American investments: farmlands in Washington Heights and central New York, and their Broadway and Liberty Street buildings. Using a power of attorney Stephen had given her, she put almost all their remaining real estate — including the valuable downtown parcel — in trust for herself for life. Thus she transmuted herself into a rara avis: a married woman who was a landed proprietor in her own right.

In 1828 her husband left France to rejoin her in the United States. His death, on May 22, 1832, increased her wealth. She collected on old debts he was owed by insurance companies and the French government for ships seized during the Napoleonic wars. Then she fought his brother and sister in court to keep as much of the money as possible, investing her takings in real estate in soon-to-boom Saratoga Springs. She improved the Broadway and Liberty Street property in Manhattan, too, replacing two three-story buildings with three five-story structures that would ensure her a comfortable income from rents. Using a tactic popular among widows, she probably funded this last initiative with money that was in the mansion at the time of her husband's death, spending it secretly before the estate was inventoried.

Jumel proved a careful steward of her wealth. She kept her land and properties leased, moving swiftly to evict tenants who stopped paying rent and pursuing them in court for the monies due. If she was unable to lease a piece of agricultural acreage, she would find a farmer willing to work the land in exchange for half the profits from the crops he raised. There is evidence that she kept up with developments in scientific farming: surviving leases for her Saratoga lands show that she paid for clover, timothy and plaster to improve the soil.[3]

She made only one truly disastrous decision when it came to guarding her financial security. That was her choice of a second husband. On July 1, 1833, only 13 months after Stephen's death, Jumel remarried at the age of 58. Her new spouse was former Vice President Aaron Burr. Although his reputation was blighted — he had killed Alexander Hamilton in a duel in 1804 and then made a quasi-legal attempt to seize Spanish lands in Texas and Mexico, for which he was tried and acquitted in federal court — Burr was born into the American elite, able to move in social circles to which Jumel had long craved entry. At 77 he remained a brilliant lawyer and a man of great charm.

Yet Burr was also a chronic debtor. He squandered money as fast as he could borrow it and then kept borrowing more. His new wife's fortune was not exempt. He spent Jumel's money with abandon. A year after the marriage, she filed for divorce. Since the only ground for severing a marriage in New York in 1834 was adultery, she arranged for a servant of Burr's to testify to having observed her employer disporting himself with a lover one month after the marriage.

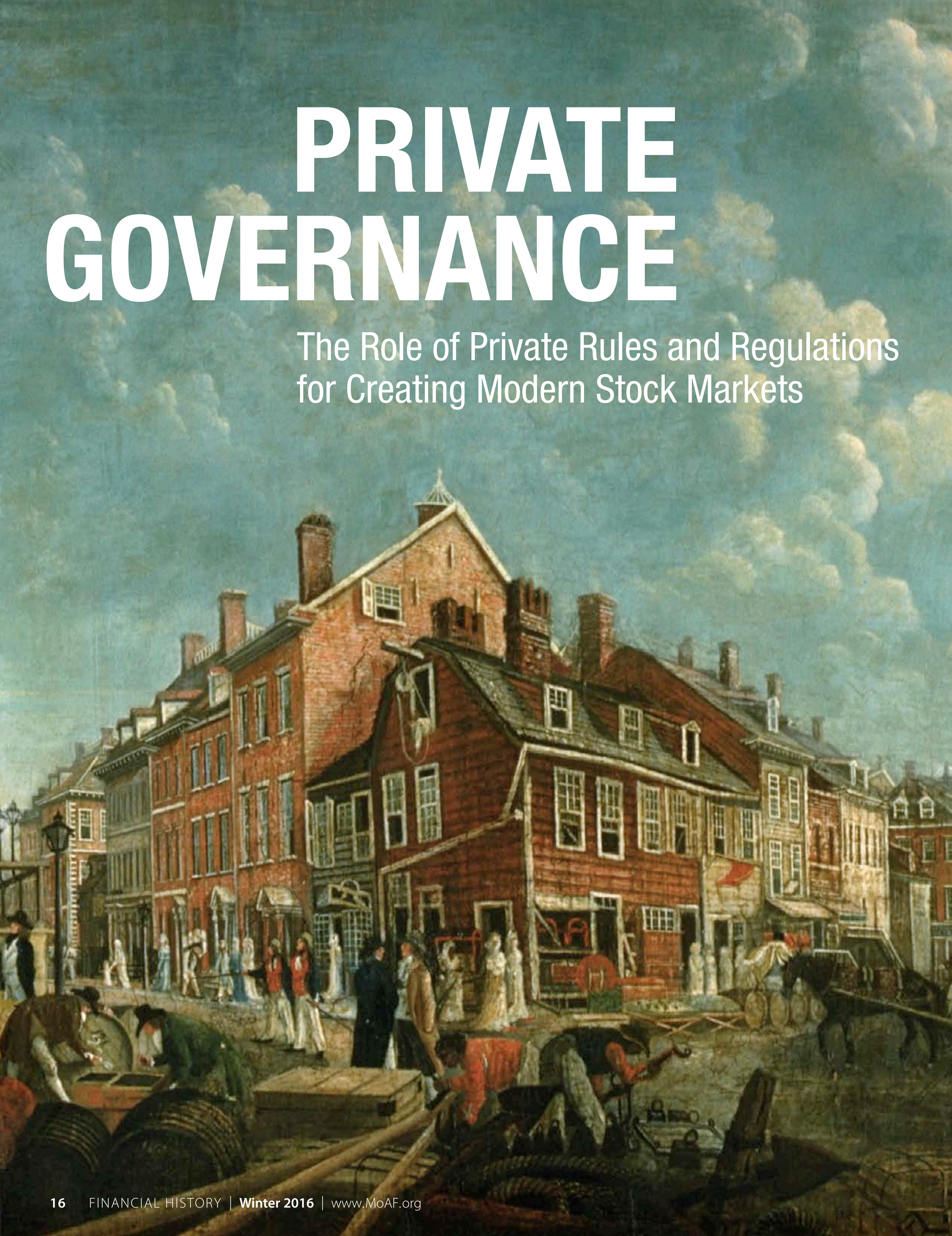
Burr fought back with manufactured evidence of his own, accusing Jumel of adultery with eight men — a divorce would not be awarded if the complainant in the case had been unfaithful. Jumel had the more convincing story. She won her case.

The unhappy episode cost Jumel $13,000 that Burr ran through during the first few months of their union — the equivalent in buying power of $378,000 today — not to mention the legal fees for the divorce. Later, however, she turned the brief marriage into an asset. Traveling in Europe as Mrs. Burr, widow of the vice president, she used her status to arrange a good marriage for a much-loved great-niece. When she died in 1865, she was worth at least $1 million — approximately $15 million today.

Jumel is not a heroine without blemishes. In spite of the wealth she attained, she could be tightfisted, depriving servants of what they were owed. She put herself first, when push came to shove. When she placed most of the Jumel lands in trust for herself, she left her loving husband with practically no property of his own. Although she may have acted to protect their holdings from his creditors, her actions were also self-serving. It is hard to say whether protecting their joint assets or ensuring her future was her primary motivation. » *continued on page 39*

PRIVATE GOVERNANCE

The Role of Private Rules and Regulations for Creating Modern Stock Markets



By Edward Peter Stringham

A commonly held belief is that markets can only emerge after government sets the rules of the game and creates an effective regulatory framework. But if one looks back in history, the world's first three major stock markets, in 17th century Amsterdam, 18th century London and 19th century New York, developed amazingly sophisticated financial contracts even though most were unenforceable in courts of law.

From the first stock markets in Amsterdam and London, government officials viewed most contracts in these markets as forms of gambling that were used to manipulate prices; the same was true in New York. In a 1791 letter to Thomas Jefferson, James Madison wrote, "stock jobbing drowns every other subject. The coffee house is an eternal buzz with the gamblers." On April 10, 1792, the New York state legislature passed "An Act to Prevent the Pernicious Practice of Stock-Jobbing," which declared the unenforceability of all but the simplest contracts:

> All contracts, written or verbal, public or private, made after the passing of this act, for the sale or transfer, and all wagers concerning the prices, present or future, of any certificate or evidence of debt, due by or from the United States, or any separate state, or any share or shares of the stock of the bank of the United States, or any other bank, or any share or shares of the stock of any company established or to be established, by law of the United States or any separate state, shall be, and all such contracts are hereby declared to be absolutely null, void, and of no effect.

Despite the unenforceability of contracts, brokers continued trading anyway. The contracts were made possible not because of government, but because of private rules and regulations that emerged from the market. In Amsterdam brokers made their contracts in open air venues like the Amsterdam Bourse, and in London and New York brokers congregated in coffeehouses and taverns that they transformed into private rule enforcing clubs. Long before government enforced contracts for them, traders engaged in forward contracts, short sales, securitization, hypothetication and options. Traders in Amsterdam relied on reputation and the discipline of repeat dealings, and traders in London transformed Jonathan's Coffeehouse into a private club to create and enforce rules. But it is the New York markets that will be the focus of this article.

Tontine Coffee House (left), Merchant Coffee House (center) and Wall Street (right) facing east, by Francis Guy, 1797.

Self-Policing Clubs

A year after the famous Buttonwood Agreement of 1792, where 24 brokers pledged to deal with each other, an association of merchants created The Tontine Tavern and Coffee House "for the purpose of a Merchants Exchange with 203 subscribers at $200 each." One commentator described it in 1794:

> The Tontine Tavern and Coffee House is a handsome, large brick building; you ascend six or eight steps under a portico, into a large public room, which is the Stock Exchange of New York, where all bargains are made. Here are two books kept, as at Lloyd's, of every ship's arrival and clearing out. This house was built for the accommodation of the merchants, by Tontine shares of 200 pounds each. It is kept by Mr. Hyde, formerly a woolen draper in London. You can lodge and board there at a common table, and you pay 10 shillings currency a day, whether you dine out or not.

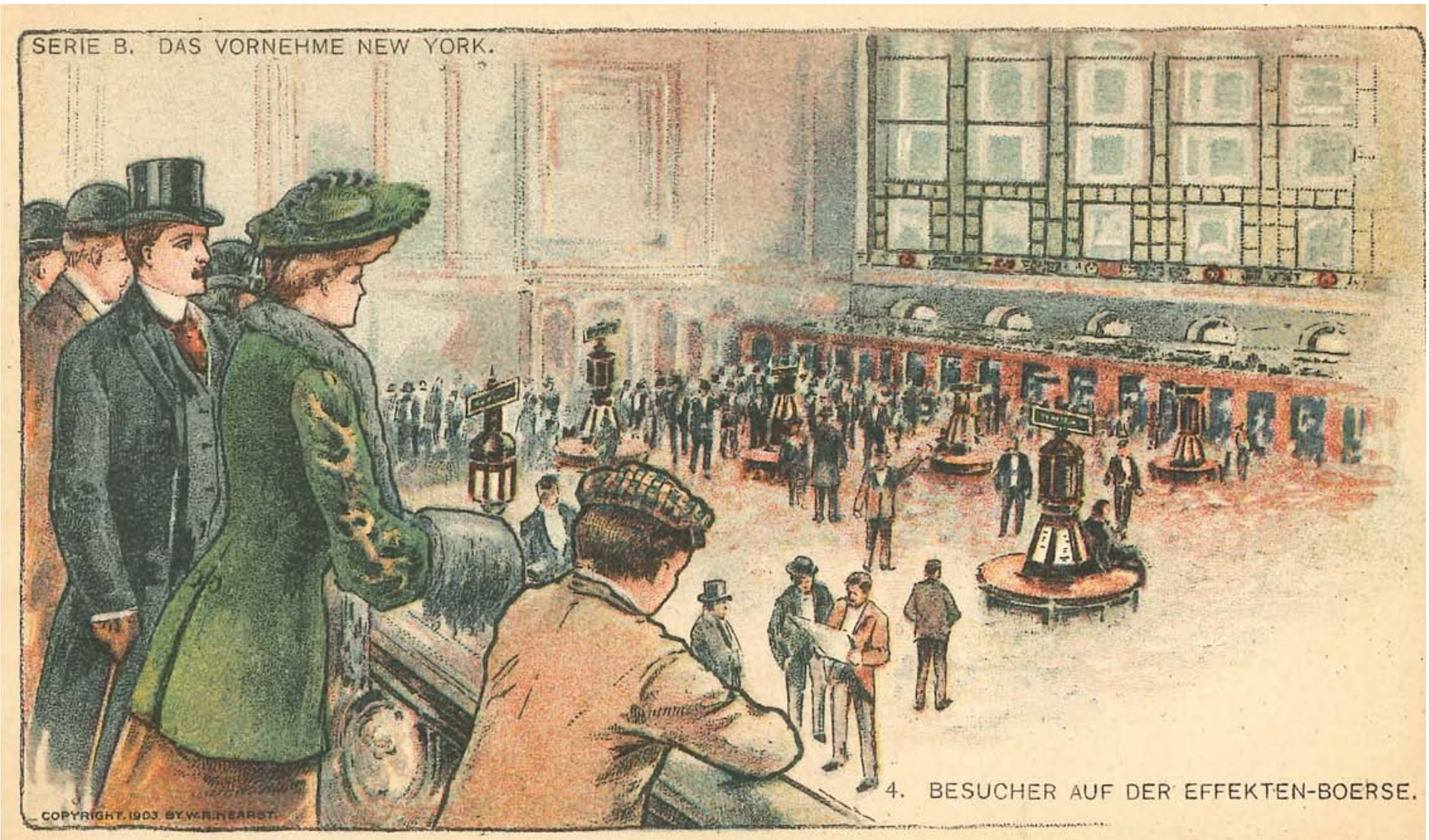
They adopted a "Constitution and nominations of the subscribers to the Tontine Coffee-House" as early as 1796; by 1817, brokers created a more formal membership club and trading venue, the New York Stock and Exchange Board. The 1817 "Rules to be adopted and observed by the 'New York Stock and Exchange Board'" were quite simple. They included "fines for non-attendance at the calling of the Stocks," and stated that "any member refusing to comply with the foregoing rules may have a hearing before the Board, and if he shall still persist in refusing, two-thirds of the Board may declare him no longer a member." Members added different resolutions over the years, and by the 1860s, in addition to blacklisting those who did not follow through with their contracts, to make sure everyone was proper they had rules prohibiting "indecorous language" (suspension for a week), fines for "smoking in the Board-room or in the ante-rooms" ($5) and fines for "standing on tables or chairs" ($1).

In the 1860s, they shortened the name to the New York Stock Exchange (NYSE), had an initiation fee of $3,000 and soon after had seats that could be bought and sold. They moved to the corner of Wall and Broad Streets in 1865 and into their current building in 1903. Entrance requirements and an initiation fee screened for reliability up front and acted as the equivalent of a bond that would be forfeited by anyone who broke the rules.

Private Listing and Disclosure Requirements

In addition to having rules of membership, the exchanges started having rules about the securities that could be listed. Letting any entity, including likely fraudulent ones, approach investors had the potential to create a tragedy of the commons situation where the fraudulent ventures crowded out the good. To deal with this problem, they adopted listing and disclosure requirements to make the market more transparent. By 1865 the NYSE had two lists of securities — the regular list and the secondary list — and the first list would be called at the "First Board" in the morning session that members had to attend. For a company to be on that list, the exchange required that applications "be made directly to the Board, with a full statement of capital, number of shares, resources, &c."

Over time they adopted more explicit listing requirements and required companies to maintain a transfer agency



Museum of American Finance

Interior view of the New York Stock Exchange from a postcard, dated 1903.

and registrar approved by the exchange (New York Stock Exchange, 1914, Article XXXIII, Sec. 1); to obtain permission from the Committee on Stock before issuing initial or subsequent shares (Article XXXIII, Sec. 2, Sec. 5); and to comply with various rules of the NYSE Governing Committee, which had the authority to suspend dealings or remove a company's shares from the exchange (Article XXXIII, Sec. 4). By the 1920s, the exchange required various reports and disclosures from companies.

Although each listing and disclosure requirement involves costs to listing firms, they can bestow certain benefits to investors, and in turn to listing firms. One can think of the exchange as solving a sort of collective action problem between individual investors and firms. A listing firm nominally bears the costs of compliance, but it willingly does so because the rules increase the value of its stock. If investors value transparency through listing or disclosure requirements, an exchange can require them. That means individual investors need not visit a company's offices if they know that a stock exchange and auditors have reviewed the company's books. A stock exchange helps provide an off-the-shelf package of rules for corporate governance, and the costs and benefits of that package become internalized within the exchange.

Competition Among Providers of Private Governance

We now know that those associated with the NYSE made a lot of good choices, and that by World War I, the market surpassed its counterpart in London as the world's most important exchange. But at the time, the success of the NYSE was not inevitable. Adopting stricter rules had the potential to attract more market participants, or it had the potential to push them away to less strict competitors.

The exchange always had to compete for business, and throughout the years it faced competition from the Open Board of Brokers (which merged with the NYSE in 1869); the Curb Market and its more formal outgrowth, the New York Curb Exchange (founded in 1921 and renamed the American Stock Exchange in 1953); the Consolidated Stock Exchange of New York (founded in the 1880s, it included many mining companies); and regional exchanges including the Boston and Philadelphia Stock Exchanges (founded in 1834 and 1754, respectively, the latter in Philadelphia's London Coffee House).

Investors also could have done business on the Coal and Iron Exchange, the Coffee Exchange, the Cotton Exchange, the Maritime Exchange, the Metal Exchange, the New York Insurance Exchange or the Leaf Tobacco Board of Trade, to name a few. Some, such as the Consolidated Stock Exchange of New York (which opened in 1885 and closed in 1926), were ultimately outcompeted. But the advantage of competition was that each exchange had to try to make its market as attractive as possible; those that did a better job prospered.

Private Incentives for Increasing Transparency and Reducing Fraud

The system of private regulation made the market more attractive by screening firms, creating listing requirements and requiring disclosure for investors. The requirements were not decided by government, but by the market participants themselves who won or lost based on the attractiveness of the venue. While it was impossible to prevent all instances of fraud, the listing and disclosure requirements made it more difficult and precluded most fly-by-night firms.

Although the stricter rules of the NYSE were considered the Cadillac of listing standards, an advantage of markets is that not everyone is required to buy a Cadillac. Market participants only opted into the exchange's stricter rules if they considered them value added. If firms or investors found an exchange's listing or disclosure requirements too onerous or not appropriate, they could opt into venues with different rules.

Exchanges that failed to adopt good rules, or that adopted burdensome rules, were at a competitive disadvantage; those that adopted good ones succeeded. Rather than being "a race to the bottom" in which anything goes, the NYSE worked to make its market attractive and only put its stamp of approval on firms that warranted trading. By providing extra assurances to investors, the exchange increased the demand for its market and made investing in stocks more attractive and safe.

Private Governance as the Historical Norm

Although most politicians would assert that advanced markets are impossible without government enforcing the rules of the game, history shows otherwise — and not just for a short time, but for hundreds of years. This form of private governance has been tremendously important for centuries, but its mechanisms are often not easily seen or are forgotten. When buyers do not have to worry about counterparty default risk in a stock purchase, the time they spend thinking about the problem is minimal. Behind the scenes, however, the stock exchange spent hours making sure people who are permitted to trade in a market can actually deliver what they promise.

The New York Stock Exchange, 1882.

When the Securities Act and the Securities Exchange Act were implemented in 1933 and 1934, they mandated many of the disclosure requirements that the NYSE had already adopted. Some government regulations were not very burdensome for firms that had already chosen to comply with stricter NYSE regulations, but they were burdensome for many smaller markets. Therefore, the society-wide mandates crowded out or interfered with many of the private regulations. It also took what had been a competitive market for governance and put it into the hands of a monopoly government.

A major disadvantage of relying on monopolized rules and regulations is that the government, unlike market participants, does not receive market feedback or have to pay its ill-conceived or costly rules and regulations. A few years ago, New York City Mayor Michael R. Bloomberg and Senator Charles Schumer pointed out that federal regulations are making American markets less competitive. Moving back to a competitive system would allow market participants to opt into rules and regulations that enhance markets and opt out of rules and regulations that hinder them.

Stock markets in Amsterdam, London and New York turned their cities into leading financial centers that brought rapid economic development in their nations and the world. As Wright (2002) and Rousseau and Sylla (2005) point out, well-functioning capital markets, particularly secondary securities markets, provide an important explanation of where and when economic development occurs. Modern capitalism owes its existence to stock markets and the private rules and regulations that made them possible. $

Edward Peter Stringham, Ph.D., is the Davis Professor of Economic Organizations and Innovation at Trinity College, Hartford, Connecticut. This article has been adapted from his latest book, Private Governance: Creating Order in Economic and Social Life, *© 2015 Oxford University Press. All rights reserved.*

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The Messages of Money

By Ellen R. Feingold

Note: This article has been adapted from The Value of Money *(Smithsonian Institution Scholarly Press, 2015).*

THE MOST PROMINENT MESSAGE on money is often the denomination, or monetary value, but it is rarely the only message. Through images and text, governments use money to make both subtle and overt political and cultural statements about a nation's identity, leadership, heritage and values. The practice of attaching messages to money makes coins and notes valuable sources for learning about global cultures and history.

American money in the 18th and 19th centuries contained a wide range of political messages relating to the young nation. Notes and coins depicted symbols and scenes that portrayed and reinforced democratic principles and national unity. Some concepts were expressed through imagery and classical allegory. The personification of Justice is portrayed on a $50 interest-bearing note from 1863 as a woman holding scales. The idea of unity among the 13 colonies is conveyed on a one-sixth dollar note from the Pennsylvania Colony through the depiction of 13 interlocking rings. Other messages were more direct, such as the phrase "'Tis Death to Counterfeit," which appeared on many colonial notes to notify users of the strict punishment for violating the law.

The inclusion of portraits of national icons on money can be traced back thousands of years to ancient political figures, such as the emperors of Rome. The widespread practice of depicting national leaders on money makes coins particularly robust sources for studying the succession of governments and the ways in which rulers communicated and demonstrated authority. American money has featured — and continues to feature — many of the nation's founding fathers and leading political figures, such as George Washington, James Madison and Abraham Lincoln. Their portraits invoke a feeling of stability and continuity, reminding people of the nation's strong leadership through times of crisis and discord.

National icons and political messages are often portrayed alongside cultural messages, which can reflect or even help shape a community's identity. For example, the inclusion of multiple languages on money can convey existing linguistic diversity, such as the 17 languages on Indian rupee notes, or can spread the acceptance of a new language or script. Religious messages on money can highlight a widely held belief, introduce a new religious doctrine, or, as with the American motto "In God we trust," connect the fate of the nation to the will of the divine. The use of imagery of historic sites, such as the pyramids of Egypt, can be employed by governments to promote their ideas about national heritage, identity and tradition.

In addition to the messages that appear on money, monetary objects created for special circumstances convey information about their times and places simply through their creation and use. For example, the introduction of separate currencies for persecuted people, such as notes issued to Jewish people in Nazi concentration camps and Jewish ghettos during the Holocaust, reveal not only a little-understood aspect of the history of that genocide, but also the ways in which money can be used as a social and political device of oppression. Special currencies have also been created during times of economic difficulty; hard-times tokens produced in the 1830s reflect coin shortages in America; food stamps are a sign of hardship and hunger, as well as the US government's response to poverty.

By attaching messages to money, governments have revealed much about the ways in which leaders saw themselves, how they wanted their citizens and subjects to see them and how they treated the people whose lives and well-being relied on the money they issued. $

Ellen Feingold is the curator of the National Numismatic Collection at the Smithsonian National Museum of American History. Her research specialties include the history of money and monetary objects, counterfeiting and forgery, and legal institutions and the administration of justice. She is the author of The Value of Money *and the curator of the eponymous exhibit at the National Museum of American History.*

POLITICAL MESSAGES

Unity

During the Revolutionary period, American money often contained messages about unity. The image of 13 interlocking rings on continental notes was intended to illustrate the solidarity of the 13 colonies against the British Crown [1]. In the 1780s, the new national motto, "E Pluribus Unum" — or "out of many, one" — began to appear on American coins.

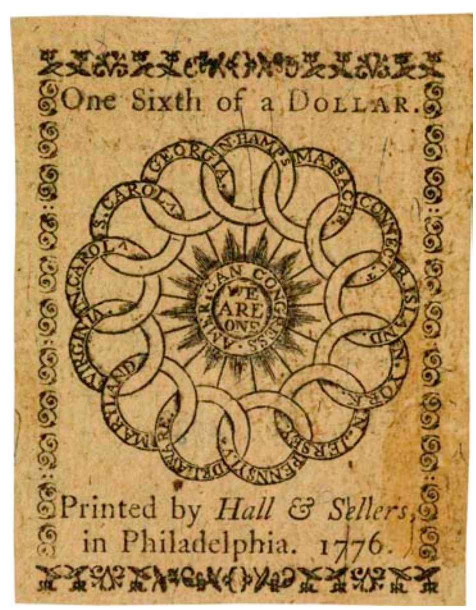
Liberty and Justice

Political ideals and values, such as liberty and justice, have often been depicted on American money as allegorical figures. On the interest-bearing note of 1863, Justice is shown holding her scales [2]. A strong Liberty with her sword and shield appears on the right side of the $50 note from 1880 [3]. Liberty has also appeared on many US coins.

NATIONAL ICONS

James Madison

James Madison was the fourth US President and is often referred to as the "Father of the Constitution" because of his role in writing America's founding documents. His portrait has been featured on the $5,000 denominations of multiple series of US notes [4]. His signature is visible on a personal check he wrote in 1813 [5].

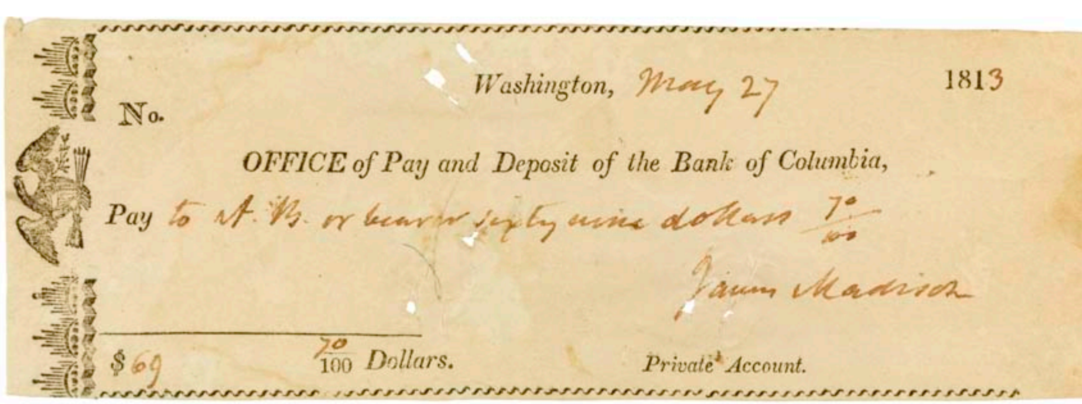


1 One-sixth dollar note, Pennsylvania Colony, 1776. *Donated by the Stack family.*

2 $50 interest-bearing note, United States, 1863. *Donated by the Stack family.*

3 $50 legal tender note, United States, 1880. Donated by US Department of the Treasury.

4 $5,000 Federal Reserve note, United States, 1928. Donated by US Department of the Treasury.



5 A personal check of James Madison for $69.70, United States, 1813.

Abraham Lincoln

President Abraham Lincoln was the first historic figure to be depicted on a circulating coin issued by the US Mint. The decision to include him on the 1909 cent designed by Victor D. Brenner reflects his position as a symbol of national unity and stability 6 and 7. Lincoln has also been featured on US paper money.

6 One cent coin, United States, 1909.
Donated by Frederic A. Delano

7 Abraham Lincoln plaque by Victor D. Brenner, United States, circa *1907. Donated by US Department of the Treasury.*

CULTURAL MESSAGES

Language and Multiculturalism

The languages used on money convey a message about the community for which the currency is intended. Among the earliest bilingual coins are the Indo-Greek drachms from about 160 BCE in modern Afghanistan and Pakistan. They feature both Greek and the Kharoshthi script, used to write an Indian language 8. This reflects the ethnic and cultural diversity in the region. Many modern notes feature multiple languages and more than one script, such as the 500 ruble note from the Republic of Azerbaijan, which has Latin, Cyrillic and Arabic script 9.

Drachm coin, Bactria, circa 160 BCE. 8
Donated by Raymond and Meryem Hebert.

500 ruble note, Republic of Azerbaijan, 1920. 9
Donated by The Chase Manhattan Bank.

10 500 mil note, British Mandate for Palestine, 1927. *Donated by Catherine Bullowa.*

11 Hard-times token, United States, 1837.
Donated by Mendel L. Peterson.

12 Food certificate, United States, circa 1970.
Donated by US Department of Agriculture.

Cultural Heritage

Many nations use money to reflect and define their cultural heritage. Notes from Egypt, for example, feature the pyramids, hieroglyphics and ancient sculpture. Similarly, Chinese notes depict the Great Wall of China, and colonial notes for the British Mandate for Palestine are decorated with monuments of the Old City of Jerusalem 10.

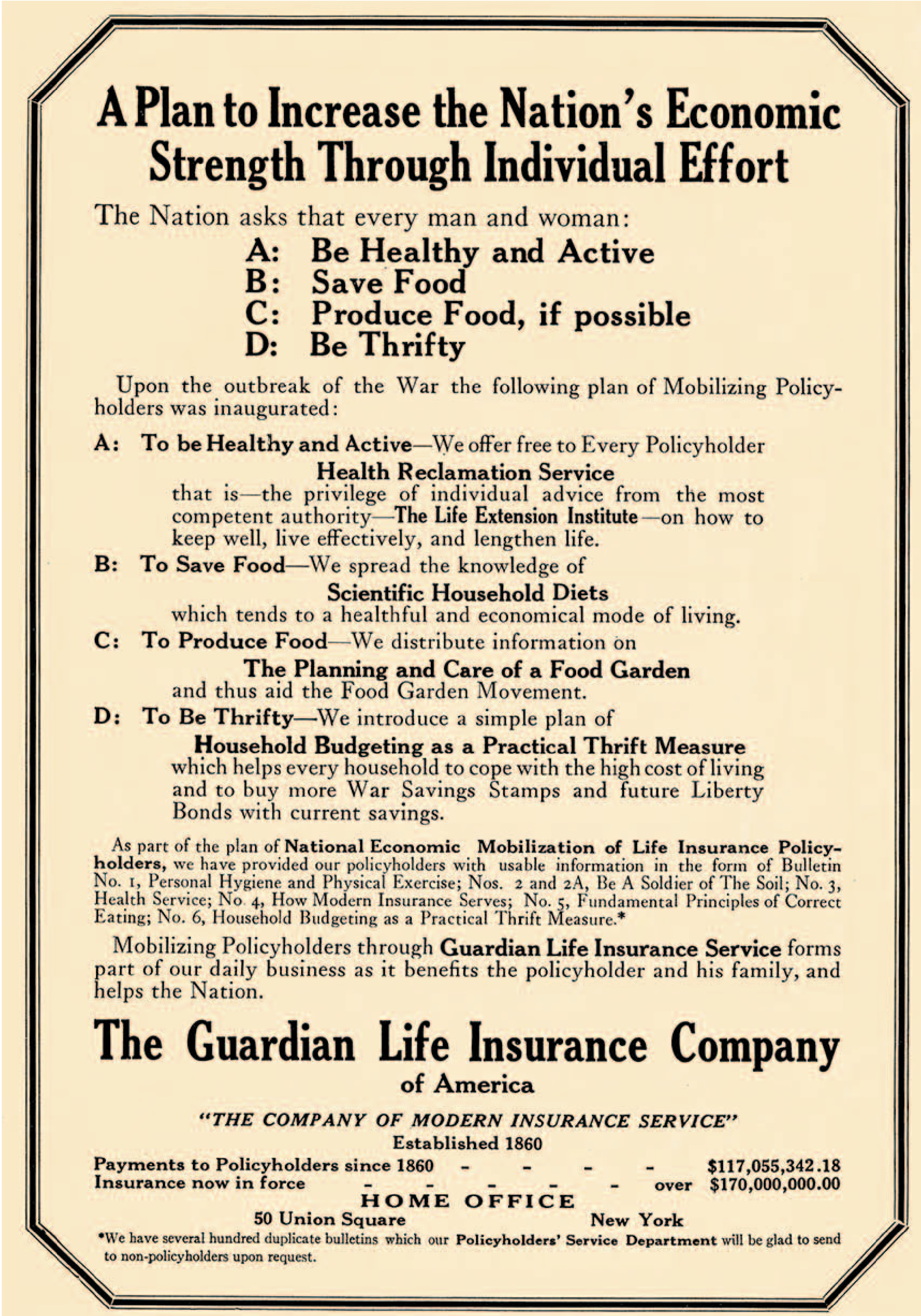
MESSAGES OF CIRCUMSTANCE

Currency Shortages

During the 1830s and the early 1840s, the United States faced economic decline and a shortage of coins. Copper tokens, called hard-times tokens, were issued privately and used as money. Some contain satirical images, such as a tortoise carrying a safe with the word "Treasury" on it 11.

Hardship and Hunger

Food stamps are issued by the US government to low-income families and individuals and are accepted by most grocery stores as money for food purchases. The United States first began issuing food stamps in 1939 to help struggling families during the Great Depression. Since then, the government has also developed special programs for mothers and babies in need 12.



A Plan to Increase the Nation's Economic Strength Through Individual Effort

The Nation asks that every man and woman:

A: Be Healthy and Active
B: Save Food
C: Produce Food, if possible
D: Be Thrifty

Upon the outbreak of the War the following plan of Mobilizing Policyholders was inaugurated:

A: To be Healthy and Active—We offer free to Every Policyholder

Health Reclamation Service

that is—the privilege of individual advice from the most competent authority—**The Life Extension Institute**—on how to keep well, live effectively, and lengthen life.

B: To Save Food—We spread the knowledge of

Scientific Household Diets

which tends to a healthful and economical mode of living.

C: To Produce Food—We distribute information on

The Planning and Care of a Food Garden

and thus aid the Food Garden Movement.

D: To Be Thrifty—We introduce a simple plan of

Household Budgeting as a Practical Thrift Measure

which helps every household to cope with the high cost of living and to buy more War Savings Stamps and future Liberty Bonds with current savings.

As part of the plan of **National Economic Mobilization of Life Insurance Policyholders,** we have provided our policyholders with usable information in the form of Bulletin No. 1, Personal Hygiene and Physical Exercise; Nos. 2 and 2A, Be A Soldier of The Soil; No. 3, Health Service; No. 4, How Modern Insurance Serves; No. 5, Fundamental Principles of Correct Eating; No. 6, Household Budgeting as a Practical Thrift Measure.*

Mobilizing Policyholders through **Guardian Life Insurance Service** forms part of our daily business as it benefits the policyholder and his family, and helps the Nation.

The Guardian Life Insurance Company of America

"THE COMPANY OF MODERN INSURANCE SERVICE"

Established 1860

Payments to Policyholders since 1860 - - - - - $117,055,342.18
Insurance now in force - - - - - - over $170,000,000.00

HOME OFFICE
50 Union Square New York

*We have several hundred duplicate bulletins which our **Policyholders' Service Department** will be glad to send to non-policyholders upon request.

Courtesy of the Guardian Life Insurance Company

During World War I, Guardian unveiled a series of bulletins encouraging policyholders to improve their health and frugality. This, in turn, would enhance the "Nation's Economic Strength," according to this Guardian advertisement in *Red Cross* magazine, from 1918.

MOLDED *by* COMPETITION

The Guardian, Quite Another Quiet Mutual

By Robert E. Wright

Readers of a certain age will remember television commercials for "The Quiet Company," life insurer Northwestern Mutual, one of about a dozen large mutual insurers that quietly dominated the US life insurance industry for most of the 20th century. Many were swept up in the demutualization wave that struck that industry in the 1990s, but some — including Northwestern, TIAA-CREF, New York Life and Massachusetts Mutual — remain wholly mutual, i.e., completely owned by their policyholders. With general account assets of about $40 billion, less than half that of the mutual behemoths just referenced, Guardian Life Insurance Company of America (hereafter, Germania or Guardian) also avoided the demutualization wave. Headquartered on Hanover Square, just blocks south of Wall Street and within sight of Delmonico's, the restaurant where it held its first organizational meeting in March 1860, Guardian quietly (usually) continues to do what it has (almost) always done, dutifully serve its policyholders.

In the 19th century, mutual cooperation was capitalism's ingenious response to socialism. If you do not like some aspect of the world, America's business leaders essentially told socialists, anarchists and sundry other radicals, don't upend everything in bloody revolution; rather, work to fix the specific problems you perceive. If you think grocers charge too much, form a food co-operative. If workers are vulnerable to unemployment, help them to save by starting a mutual savings bank. If members of a particular ethnic group cannot buy life insurance at reasonable rates due to discrimination or other reasons, create a life insurer that specializes in insuring them.

Guardian Life Insurance Company building.

That is precisely what the founders of Guardian, which began its corporate existence as Germania Life Insurance Company, did in 1860. Technically, Germania was a hybrid corporation, a mix between a joint stock company owned by stockholders and a mutual owned by its policyholders, because New York state law on the eve of the Civil War forbade the formation of pure mutuals. Germania, however, always behaved like a mutual. It never increased its equity capitalization above the $200,000 it initially raised and, following a change in state law, a failed but frightening hostile takeover attempt and the seizure of its shares owned by German citizens during the Great War, it mutualized in 1925 by buying almost all of its outstanding shares for $150 apiece. (Complete demutualization had to wait until early 1946 due to a tussle with the estate of a deceased stockholder.)

As its name suggested, Germania specialized in selling life insurance policies and annuity products to Germans, initially those residing in the United States — from New York to St. Louis to San Francisco — and soon after to those in other nations as well, including Germany itself, especially after its dramatic 1871 unification. Many of Germania's founders had been revolutionaries during an earlier German unification effort, in 1848, but America's liberal business climate transformed them into pillars of the business community on two continents.

Germania's life insurance policies and annuities protected the incomes of its policyholders and their families by providing a death benefit if the "breadwinner" died too early, before the end of his (and later her) productive years, and a yearly payment if the breadwinner died too late, after s/he could no longer work. That is commonplace today, but in the 19th century, before computers and finely-tuned actuarial tables, it was high finance.

Like other mutual insurers, Germania sold "participating" policies that paid "dividends" (rebates on premiums) when mortality and policy lapse rates, investment income and/or expenses proved better than assumed. That way, policyholders shared in the profits when longevity increased, office technologies became more efficient or investment returns increased, while adverse developments did not threaten the solvency of mutual insurers nearly as quickly as they brought down joint stock insurers and banks. The company simply reduced dividends, for example, when death claims unexpectedly doubled due to the 1918-19 influenza epidemic and when the Great Depression increased disability claims to unexpected levels and wreaked havoc with its mortgage portfolio.

By 1890, Germania was an important multinational corporation; in 1896, the contribution of its European branch to its total insurance in force peaked at just over 48%. Just 30 years later, however, Germania had changed its name to Guardian, stopped writing new policies abroad and began disposing of its existing foreign policies as best it could under deteriorating economic conditions in Central Europe and the close scrutiny of regulators on both sides of the Atlantic. Although the unwinding process was not completed until after World War II, by 1925 only 1.2% of the company's insurance in force was of foreign origin.

The Great War (1914–1918) was the proximate cause of those major transformations in the company's business and brand. After America's entry into the war on the side of France and Great Britain in early 1917, many (likely thousands) of companies dropped allusions to Germans or Germany from their corporate monikers. Despite numerous public relations efforts to distance the company from the Kaiser, including making large purchases of Liberty Loans, the field force thought the Germania name hurt them when prospecting for new policyholders, even among those of German ancestry. At the same time, upper management reeled from unexpectedly large foreign exchange fluctuations and the regulatory and geopolitical uncertainties caused by the breakup of the Austro-Hungarian, German and Russian empires. Penetrating the increasingly affluent general American market simply looked like a better business move than continuing to chase German globetrotters in an increasingly volatile world. The ensuing decades of hyperinflation, depression, war and superpower strife proved Guardian's leadership right.

Due to its intense focus on the well-being of its policyholders, Guardian *nee* Germania for the most part avoided the turmoil that occasionally roiled the life insurance industry. It actually published *as a sales piece* the testimony of its president and actuary before the Armstrong Committee, a 1905 New York state probe into abusive practices common at the larger insurers at the time. While upstart competitors rapidly outgrew Guardian by writing as much new business as possible, Guardian's leaders stressed that its sales agents should not "do any deals… unless they are good for the policyholder, the agent *and* the company." President Daniel Lyons made that statement in 1964, but none of Guardian's presidents, before or since, would have even considered intimating otherwise.

Courtesy of the Guardian Life Insurance Company

This photo was taken at a dance sponsored by Guardian for Home Employees, circa 1946.
Such functions improved both employee engagement and morale.

Guardian was unafraid to behave in contrarian fashion when doing so promised to unleash value for policyholders. To save money in its early years, it moved its headquarters from Broadway and Wall Street to various lower rent locations in New York's Financial District. It moved again, to Union Square, in 1911, a time when other Wall Street firms fled pricey downtown real estate by moving all the way to midtown. Guardian returned downtown in 1998, before revitalization efforts increased rents there. Some surmise the company would put its headquarters on Mars (the planet, or, more realistically, the towns of that name in California, Texas and Pennsylvania) if it thought the move would be in the best interests of its policyholders. Long before outsourcing became corporate sheik, Guardian quietly established back office operations in Bethlehem, Pennsylvania; Appleton, Wisconsin; and other places with low costs and an ample supply of qualified white collar workers.

At mutual insurers like Guardian, keeping back office operations up to speed was a never-ending battle between costs, new technologies and evolving policyholder expectations. Throughout the company's history, all sorts of contraptions — from desktop typewriters, adding machines and PCs to room-sized addresseographs (huge mechanical printers), pneumatic tube and dumbwaiter document delivery systems, and mainframe computers — promised greater efficiency. Generally, when it came to office technology, as well as other types of innovation, Guardian tried to be a fast second so it could learn from the mistakes made by the pioneers, but without lagging too far behind the frontier. When decision makers in the company's headquarters put off change too long, its field force (sales persons) let them know it, promptly and firmly, at first informally and later via a formal Field Advisory Board (FAB).

During the 19th century, Germania had experimented with a variety of sales personnel models ranging from salaried employees to special traveling agents compensated with commissions and expenses to mere brokers. While continuing to accept business brought to it by brokers, the company eventually settled

Germania changed its name to Guardian during World War I to distance itself from a negative association with Germany, such as depicted in this Army recruitment poster.

on a general agency system whereby it essentially outsourced the acquisition and maintenance of most of its business to outside companies called general agents (GAs) compensated largely by commissions. The GAs, in turn, hired agents who personally interacted with prospects, applicants and policyholders.

Most early agents sold insurance only part-time and learned primarily on-the-job. After the Armstrong Investigation, however, life insurance sales started to professionalize. That meant specialized study, certification and on-going education via materials created by agency men like Charles Ives (whose *Symphony No. 3, The Camp Meeting* won the Pulitzer Prize for music in 1947). Soon after its name change, Guardian affiliated with the Carnegie School of Practical Life Insurance Salesmanship and even established its own agent training school. About the same time, it began publishing *Service*, a newsletter designed to motivate and educate its field force through articles about mortality rates, taxes, successful selling techniques and other pertinent topics.

Professionalization of the sales force continued in the 1920s and 1930s with the introduction and refinement of the Graph Estate, a sales template that focused agents and prospective policyholders on estate planning. Another major improvement occurred during the presidency of James A. McLain (1940-1956), whose standalone middle initial "A" allegedly stood for affable. The first Guardian president not of German ancestry, McLain in 1946 introduced a system of field representatives. These Guardian employees focused on sales but were paid salaries and merit bonuses instead of traditional commissions. The field representative system fit well with Guardian's Graph Estate template and its overall philosophy of selling prospects the products they needed, and only the products they needed, not big commission policies likely to lapse within a few years. Over the next several decades, the field representative system grew slowly but surely, and field reps finally outnumbered full-time commissioned agents in the early 1980s. By the end of the century, field representatives outnumbered agents at Guardian five to one.

McLain's most important reform, however, may have been the 1948 establishment of the FAB, a group of GAs that met several times a year to tell the home office what it was doing wrong. It played a role similar to that of activist stockholders in publicly-traded companies by repeatedly forcing home office executives to innovate in the face of intense competitive pressures.

The knock against mutual insurers was that their managers tended to be too quiet and even complacent, content to pull good salaries without working especially hard to keep up with competitors, even though that meant the eventual fossilization of their organizations. McLain himself was hyperactive — it was claimed that he could pass out drunk at 4 A.M. but roll out of bed in time to give a rousing sales speech at 8 A.M. — but what guaranteed his diligence, as well as that of his successors, was the FAB.

When Guardian had to cut dividends (i.e., raise the net cost of its policies) or services, or when the provisions of its policies failed to keep pace with those of competitors, agents felt it hard in their pocketbooks, launching them into vociferous action. Important GAs, like John C. McNamara, had always enjoyed the ear of Guardian's management, but the FAB gave them formal power.

Most importantly, perhaps, the FAB was often instrumental in moving Guardian into new lines of business, including mutual funds; variable annuities; and health, standalone disability, convertible and variable life, and various types of group insurance. Not all of those lines of business proved successful in the long term, but they earned enough to keep up agent morale and compensation, sometimes led to sales of the company's traditional staple — ordinary whole life — and diversified the sources of the company's revenue.

To this day, the FAB remains a key component of Guardian's governance and success. Like the company overall, Guardian's FAB appreciates the importance of history, so much so that it recently created a "Hall of Fame" to commemorate successful Field Representatives and to remind company executives that competition is the wellspring of innovation and improved productivity. $

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THE BANK WAR

Andrew Jackson Nicholas Biddle

Andrew Jackson, Nicholas Biddle and the Fight for American Finance

By Paul Kahan

In the wake of the Great Recession of 2008, voices on both the right and the left criticized the Federal Reserve, often arguing that it exercised too much control over the American economy. Some went so far as to call for the Fed's abolition and for the United States to return to the gold standard. A few semesters later, during a lecture on Jacksonianism in my introduction to American history class, a student commented that history was repeating itself, noting that the rhetoric and concerns about the Bank War were reflected in memes he saw on the Internet.

That the Bank War is a crucial turning point in the political history of the United States is unquestionable. As historian David Kinley noted more than a century ago, the conflict over the Bank of the United States was fought "with a violence of partisan feeling that entered… [few other] discussions which determined measures that were to be worked into our political life." Though professional historians are well aware of the Bank War's importance to American political and economic history, few Americans today know that the Bank War and its aftermath led to the first congressional censure of a President, the first Senate rejection of a cabinet nominee, the first use of the filibuster in US history and at least one fatal duel.

Congress had chartered the First Bank of the United States (BUS) for 20 years in 1791, but President James Madison allowed the institution's charter to expire in 1811. The outbreak of the War of 1812 and the economic chaos it wrought convinced many of the bank's most ardent opponents that the country needed a central bank, so in 1816, Congress granted the Second Bank of the United States a 20-year charter.

Though many of the BUS's opponents recognized the need for a central bank, they did so only grudgingly. Moreover, some policy missteps during the Panic of 1819 fostered animosity toward the BUS, particularly in the South and West. Among those hurt by the Bank's policies was Andrew Jackson, and it engendered a life-long antagonism toward the BUS. When he became President in 1829, Jackson sent muddled and contradictory signals about his intentions toward the BUS, but when it became clear he would run for re-election in 1832 (and therefore be in office when the bank's charter came up for renewal in 1836), his opponents tried to force Old Hickory's hand.

Jackson's leading antagonists, Senator Henry Clay and Vice President John C. Calhoun, convinced BUS President Nicholas Biddle to request that Congress re-charter the bank in 1832. Biddle obliged, and the BUS became the main issue of the presidential election of 1832 when Jackson vetoed the bank's re-charter. Once re-elected, Jackson used all of his power to destroy the BUS, even going so far as to order the Secretary of the Treasury to remove the federal government's money from the bank. Biddle responded by tightening credit, thereby triggering a recession. What had started as a fairly academic debate about monetary policy turned into a no-holds-barred fight to the death that left a deep imprint on America's economy and political system.

The Bank War retarded the development of a strong central bank in the United States and was, therefore, indirectly responsible for the financial instability that plagued America during the 19th and early 20th centuries. Finally, the Bank War was the crucible of the Democratic Party, transforming a loosely organized coalition of widely divergent political interests held together largely by patronage and attachment to Jackson into a disciplined and coherent party. Jackson's veto of the bank's re-charter crystallized those who opposed the President into the Whig Party, which was predicated on opposition to Jackson's expansion of presidential prerogatives, inaugurating the Second Party System. In other words, the Bank War was a critical moment in American political, economic and cultural history.

The Bank War's two leading characters, Andrew Jackson and Nicholas Biddle, could not have been more different. Whereas Jackson was the frontier lawyer who pulled himself up from poverty by his bootstraps (and, later, the labor of his slaves), Biddle was born to wealth and privilege, the scion of a prominent Pennsylvania family with strong connections to the Keystone State's political elite. Whereas Jackson was an orphan with little formal education, Biddle attended the College of Philadelphia (later the University of Pennsylvania) and the College of New Jersey (later Princeton University) before traveling to Europe.

While Jackson was a noted soldier and dueler who for decades carried at least two bullets embedded in his body (one of them, ironically, fired by a man who would be one of Jackson's strongest allies in the Bank

War, Thomas Hart Benton), Biddle was an intellectual who came to future President James Monroe's notice because of his participation in a debate at Cambridge University on the differences between modern and ancient Greek dialects.

Yet, for all of their differences, the men shared one important trait that had profound implications for American history. As historian Walter B. Smith sagely noted in 1953, "Both parties [to the Bank War] believed themselves motivated by high moral principles and entirely in the right." Illustrating this point, Jackson himself exclaimed, "The golden calf may be worshipped by others, but as for myself I will serve the Lord."

Because of the stark differences between Jackson and Biddle and the righteous tone of the debate about the Bank of the United States, historians have frequently described the Bank War in moral terms, as a clash of "good guys" versus "bad," a construction that reflects Jackson's worldview. For instance, historian Arthur M. Schlesinger Jr.'s 1945 classic, *The Age of Jackson*, depicts the Bank War as a conflict between Jacksonians fighting for the common man (i.e., the good guys) against the entrenched economic elite (the bad guys). According to Schlesinger, the Bank War was nothing less than "a battle between antagonistic philosophies of government: one declaring…that property should control the state; the other denying that property had a superior claim to governmental privileges and benefits."

For Schlesinger, a partisan Democrat, the battles of Jackson's era mirrored those of Franklin Roosevelt's time, with the Bank War framed as a distant precursor of the New Deal.

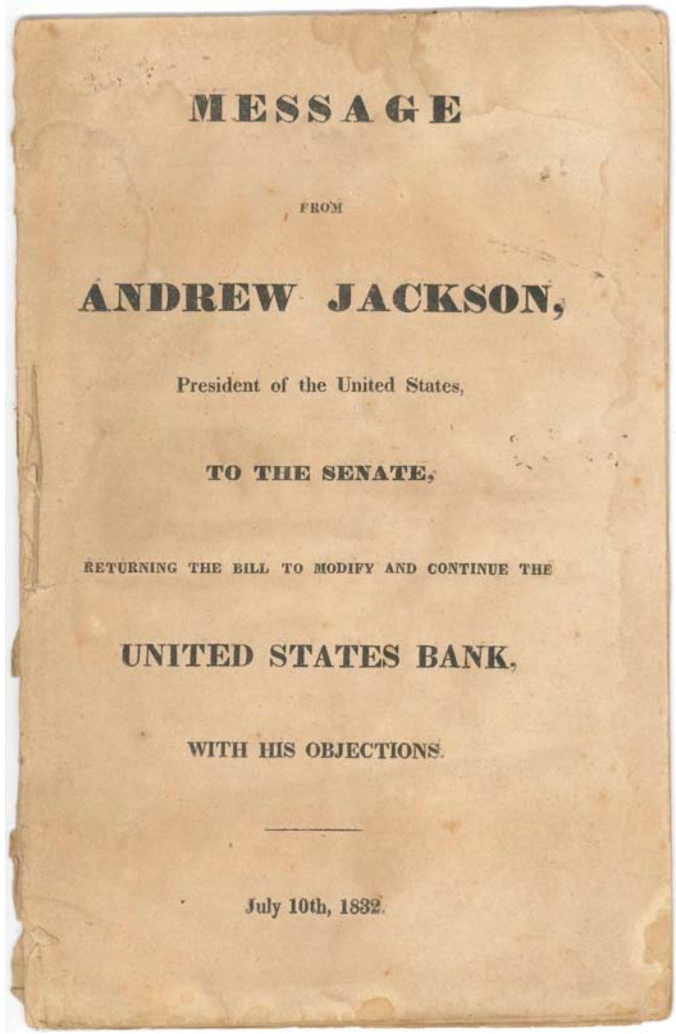
On the other end of the spectrum is economic historian Bray Hammond, whose 1957 book, *Banks and Politics in America from the Revolution to the Civil War*, depicts the Jacksonians as greedy upstarts trying to overthrow the bank in order to enrich themselves. Hammond's depiction of the Bank War mirrors Schlesinger's, except with the roles reversed; in Hammond's telling, the Jacksonians are the bad guys, while

Library of Congress

A satire on Andrew Jackson's campaign to destroy the Bank of the United States, by H.R. Robinson, 1836.

Biddle is the story's ill-fated hero valiantly (but ultimately futilely) trying to beat back the democratic barbarians at the gate.

My perspective is different. While I would not call Biddle a hero, I am not convinced that the Bank of the United States was a "monster" that needed to be destroyed. If Biddle was the politically naïve technocrat insensible to the changes reshaping the American political landscape, Jackson was the self-righteous ideologue committed, in the face of all evidence to the contrary, to a simplistic and quite frankly wrong view of the value of and need for a central bank in a rapidly-industrializing capitalist economy. Furthermore, Jackson had a Manichaean worldview in which people were either with him or against him, and there could be no compromise with those he deemed to be against him. Jackson's perspective militated against compromise and pragmatism, and as the Bank War demonstrates, there was (and is) a cost to such politics. As Smith noted:


MESSAGE

FROM

ANDREW JACKSON,

President of the United States,

TO THE SENATE,

RETURNING THE BILL TO MODIFY AND CONTINUE THE

UNITED STATES BANK,

WITH HIS OBJECTIONS.

July 10th, 1832.

Museum of American Finance

Message from President Andrew Jackson to the US Senate regarding the continuance of the Bank of the United States and recording his objections to the bank, dated July 10, 1832.

> Both parties emerged from the [Bank War] worse off than before. The government found itself minus a well-run central bank. It was now dependent on the state banks, and later was forced to experiment with the defective idea of an independent treasury. The Second Bank found itself with a very bad charter from the Commonwealth of Pennsylvania and a mass of not-too-liquid assets.

However, of the two, Jackson played the more important role: it was he who initially politicized the Bank of the United States, and the showdown over the bank's re-charter was a direct result of Jackson's ambiguity regarding the administration's goals and his two-faced willingness to say one thing to one person and another thing to another. These characteristics made conflict inevitable.

Jackson was frequently a prisoner of his own preconceived notions about how the world should work, and nowhere was this clearer than in the Bank War. Biddle, if politically naïve and elitist, nevertheless was a dedicated public servant who pursued policies he thought best for the Bank of the United States and the country as a whole, though in the end he allied himself with men like John C. Calhoun and Henry Clay, who saw the whole affair less as a high-minded debate about the country's economic future and more as an opportunity to defeat Jackson politically — and thus advance their own careers.

At numerous points in the conflict, Jackson ignored evidence that contradicted his beliefs, pursuing policies that had a disastrous effect on the American economy. At the same time, the President relied on advisers like Martin Van Buren and Roger B. Taney, whose advice was heavily shaped by their own political and economic interests. In a hyperpartisan era in which both sides claimed the moral high ground and political fights were framed in terms of absolute good and unredeemable evil, compromise was impossible.

In my view, the Bank War is more than just the story of a confrontation between Andrew Jackson and Nicholas Biddle over the re-charter of the Second Bank of United States; in many ways, it is a debate as old as the Republic about the power and influence of the President. I believe that subsequent events, particularly the boom-and-bust cycle of the American economy in the 19th century, vindicate his policies and the existence of the Bank of the United States. In addition, the Bank War highlights the on-going tension between two conflicting ideals in American political history: non-partisan technocratic policy making and democratic accountability.

In the shadow of a worldwide economic meltdown and in the presence of seemingly endless partisan gridlock, it is easy to believe that things were better in the past. The Bank War is a reminder that this myth, while comforting, is false and that while Harold Pinter was certainly correct in calling the past a "foreign country," not everything is done differently there.

Though the debate was more or less settled by the creation of the Federal Reserve System in 1913, the proliferation of pundits like Glen Beck encouraging their listeners to buy gold as a hedge against the coming economic meltdown and the Texas legislature's recent decision to create a state gold depository suggest that the same controversies of The Bank War remain alive and relevant to contemporary Americans. $

Dr. Paul Kahan teaches history at Ohlone College in Fremont, California. He has written numerous books, including The Homestead Strike: Labor, Violence and American Industry *and* The Bank War: Andrew Jackson, Nicholas Biddle and the Fight for American Finance *(Westholme Publishing, 2015), from which this article has been adapted.*

Taking Healthcare Public

Investor Ownership in Healthcare Service Companies

By Michael A. Martorelli

Institutions providing various types of healthcare treatment services have historically been organized as not-for-profit entities and controlled by municipalities, religious orders and other charitable organizations. Treating patients was thought to be a noble cause, and the province of specially-trained professionals dedicated to improving patients' lives. The prime motivation of the people and the institutions providing healthcare to others was altruism, not profit-making. Until the mid-1960s, investors interested in participating in the growth of the healthcare industry could not purchase the stock of any company operating hospitals, nursing homes, rehabilitation clinics or any other type of treatment facilities because there were no publicly-held enterprises providing such care.

When President Lyndon Johnson signed the law establishing Medicare in July 1965, he inadvertently ushered in a new era of stock market ownership for a plethora of companies providing a variety of healthcare services.

Delivering Healthcare Services

From the last quarter of the 19th century to the middle of the 20th century, providing medical care in a hospital or other treatment facility was thought to be largely the province of not-for-profit institutions and their managers. Ironically, sketchy records about hospital formation from 1875 to 1910 suggest that many of those institutions were organized as proprietary (for-profit) enterprises. They were usually owned by physicians and surgeons addressing the needs of their patients, not by investors seeking to build a company. Especially in the sparsely populated areas of the Southwest, many physicians viewed the establishment of proprietary hospitals as perfectly appropriate, since many communities lacked the resources to establish the type of public hospital that cities and counties began launching in the East.

President Lyndon Johnson signs the Medicare Bill into law, July 30, 1965.

By the time the Bureau of the Census published *Benevolent Institutions* in 1910, there appeared to be one hospital for every 28,000 inhabitants in New England, but only one for every 125,000 people in the West South Central region. In total, there were about 1,800 for-profit hospitals among the nation's total of about 4,200.

During the next several decades the number and percentage of for-profit hospitals declined steadily. Communities across the country began to embrace the obligation to support the provision of medical care for their citizens, and physician-owners closed their businesses or allowed their acquisition by municipal or charitable operators. Proprietary hospitals did not share in the federal largess given in the Lanham Act of 1941 or the successor Hill-Burton Act of 1946. In its four years of existence, the former provided more than $120 million in grants and loans for the construction of not-for-profit community hospitals. In the subsequent 20 years, the latter provided an additional $2.4 billion to aid in the construction of such facilities.

Proprietary hospitals did not disappear entirely; in 1960 such institutions accounted for about 12% of the nation's 6,800 hospitals. Most had less than half the number of beds as the average not-for-profit institution. Almost two-thirds of the approximately 815 proprietary hospitals were located in only five states, possibly due to historic regional practice patterns, as well as differing licensing and taxation regulations. During the next several years, many of those small, specialty hospitals closed or converted to community-sponsored not-for-profit institutions. These activities reflected both changes in their local medical markets and the passing of many physician owner-operators.

An extensive body of academic literature refers to several studies and reports of the American Hospital Association's Bureau of Research Statistics that described the ownership changes that occurred among proprietary hospitals during the mid-1960s. The figures cited for the period 1960 to 1967 document the decline in ownership by sole proprietors and partnerships in favor of more ownership by corporations, some of which were publicly-owned companies.

One event had the unintended effect of accelerating the formation of such firms and increasing the involvement of investors in the heretofore unrecognized *business* of providing healthcare treatment services for a profit. On July 30, 1965, President Lyndon Johnson signed Public Law 89–97: Social Security Amendments of 1965, the law that established Medicare. The relatively short law (138 pages) called for the federal government to pay the costs of much medical treatment for persons over 65 years old. The particularly meaningful Part A provisions committed the government to paying the "reasonable direct and indirect" costs of providing "inpatient hospital services" for up to 90 days and "post-hospital extended care services" for up to 100 days during each defined "spell of illness."

Medicare: A New Source of Revenue Attracts Public Investors

The long and colorful legislative history of the effort to provide medical insurance to the nation's elderly reveals many discussions about the financing of the separate Part A and Part B programs. (The former covered hospital services and was financed by a tax on employees and employers. The latter covered physician services and was financed by monthly premium payments made by the elderly.) But the legislators who had been pursuing this type of health coverage for two decades made no serious attempts to regulate the fees of any providers of medical care. Indeed, it was only when organized medicine dropped its objections to the concept of Medicare in early 1965 that the law's champions finally found the votes in Congress to transform their vision into a law.

So it appeared neither surprising nor controversial when the final version included language denying the government any authority to impose any restraints on medical costs. In the absence of such controls, the actual expenditures for Medicare in its first year after implementation were over $2 billion more than estimated. And entrepreneurs of all types responded to that flood of government spending by organizing healthcare service companies to benefit from those funds. By the late 1960s, a handful of investor-owned hospital companies had emerged.

In 1960, entrepreneur Uranus "Bob" Appel was running Medlabs, a firm that provided laboratory services to hospitals in Southern California. When one of his clients was facing bankruptcy, he took Medlabs public and used the money to acquire that 26-bed hospital. Thus, the re-named American Medical Enterprises became the first investor-owned hospital company in the country. During the next several years, the company acquired businesses making health-related films and providing inhalation therapy services. After the passage of Medicare, it greatly expanded in size by buying seven additional hospitals.

By the end of the decade, the renamed American Medical International was a leader in the rapidly-growing hospital management industry, and its stock was one of the most actively traded on the New York Stock Exchange (NYSE).

In 1962, Louisville, Kentucky lawyers David A. Jones and H. Wendell Cherry pooled their money with several friends and established Extendicare, Inc., a company to build and operate nursing homes. During the next several years, they took advantage of opportunities to make seven additional purchases. In 1968, they took their firm public and used the proceeds to fuel additional growth. Also that year, the company purchased a hospital. Management thought they could use the same business practices to operate that type of institution as they had used in the nursing home business. After two years, and the acquisition of nine more hospitals, Jones and Cherry decided the future lay entirely in that direction. In the first years of the new decade, Extendicare sold its nursing homes, changed its name to Humana Inc. and became another pillar of the new hospital ownership/management industry.

In 1960, Dr. Thomas Frist Sr. was a cardiologist and internist having trouble getting his patients admitted to the not-for-profit and church-affiliated hospitals in Nashville, Tennessee. Following in the footsteps of many medical entrepreneurs of another era, he and some colleagues subsequently established Park View Hospital. By 1968, they were considering converting the hospital to not-for-profit status and selling it to the city. Dr. Frist's son, Thomas Jr., suggested the incorporation of Park View into a company that would acquire other for-profit hospitals across the South. Local businessman and entrepreneur Jack Massey became a co-founder and helped raise sufficient funds for Hospital Corporation of America to acquire 11 more hospitals within a year. In 1969, management took the company public

on the NYSE in order to raise even more capital for growth.

In 1968, Richard K. Eamer was a Los Angeles, California lawyer and financial consultant specializing in the development, financing and operation of hospitals. He saw the advantages that economies of scale and sound business practices could bring to the industry. The following year he joined classmate John Bedrosian and partner Leonard Cohen in the formation of National Medical Enterprises. Those ambitious entrepreneurs raised $23 million in an IPO and used the proceeds to purchase four general hospitals, three convalescent hospitals and a medical office building. By the end of the decade, it too became a leader in applying classic management techniques to the tradition-bound hospital industry.

By 1970, these four publicly-owned hospital management companies owned about 250 of the nation's 1,000 proprietary hospitals. Meanwhile, entrepreneurs had established other for-profit healthcare service businesses to take advantage of Medicare's generous reimbursement policies. For example, Community Psychiatric Services owned several psychiatric hospitals. And in addition to the previously mentioned Extendicare, publicly-owned firms Hillhaven Corporation and Manor Care also operated nursing homes.

During the next decade, groups of entrepreneurs and investors would establish companies providing physical rehabilitation, kidney dialysis, respiratory therapy, ambulatory surgery, diagnostic radiology, home healthcare, etc. And they would fund most of them by selling stock to the public. The idea of making a profit from providing such services would become one of the most controversial topics in the health care world.

But the genie was out of the bottle. The Medicare rules were rewritten, business conditions changed and some companies floundered while others succeeded. Yet investors were no longer deprived of the opportunity to participate in the growth of companies providing a variety of healthcare services. $

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Trust This Bank

By Bob Watt

What is the difference between a trust company and a bank? The short answer today is: there is no difference. However, as recently as 100 years ago there was a considerable difference between the two types of financial institutions in the United States. Trust companies were specialized banking institutions that have since vanished or evolved into commercial banks. Commercial banks now provide the same services that made trust banks unique in the United States for about 90 years. During the late 19th and early 20th centuries, trust companies experienced their greatest period of growth.

What Were Trust Banks?

By the second half of the 19th century, there were several types of trust companies in the United States including industrial trusts and trust banks. Industrial trusts were established to acquire large blocks of stock in companies that produced a commodity, such as oil. The stock was placed in a trust that was managed by a board for the purpose of controlling the selling price. The most famous of the industrial trusts was the Standard Oil Trust.

Trust banks were a completely different type of institution. They were fiduciary institutions established to hold and administer assets such as real estate, money and other valuables on behalf of others — both individuals and corporations.

Trust banking was not unique to the United States. Similar financial institutions existed in South Africa, Australia and Canada in the 19th century. England and Scotland also began, on a much smaller scale, to establish trust businesses later in the century. The rest of Europe did not develop trust banks as separate financial institutions, although some trust company functions were added to existing banks in Germany, France and Austria. In the case of Germany they were confined to corporate trust work, such as transfer agent or dividend redemption.

The Development of Trust Banking in the United States

The history of US banking can be divided into approximately three periods: the early period from 1781 to 1862; the middle period from 1863 to 1912; and the modern era from 1913 to the present day. Each of these periods begins and ends with a significant event that affected the development of banking and the evolution of trust banking as a distinct financial business. The evolution of trust banks was affected by both economic and political factors.

Knickerbocker Trust Company specimen stock certificate.

In the first half of the 19th century, American economic output was mainly confined to agricultural products. Trade with Europe was dominated by cotton and tobacco grown in the southern states and forestry products from the northeastern states. By mid-century, the Industrial Revolution created a shift in America's economic output. Abundant natural resources, such as coal, iron ore and later oil, enabled the economy to move from mainly agrarian to higher value-added manufacturing.

Agriculture fell to less than half of the total US output by 1840. Capital inflows from Europe and an expanding US population in the form of immigration from Europe provided the funding and labor for a rapidly-expanding manufacturing based economy. In the period between 1850 and 1880, the number of manufacturing concerns nearly doubled, while gross domestic product per capita grew by approximately 49%.

During this same period, the rapid growth of railroads opened up the western states for commerce. Between 1850 and 1880, approximately 84,000 miles of track were added, providing a fast and low cost means of moving freight and people around the country. The result of this wealth creation was a large and growing class of wealthy people, particularly in the eastern US cities.

During the early period of US banking (1781–1862) all banks, with the exception of the First and Second Bank of the United States, were state banks, chartered by the states in which they were located. The First and Second Bank of the United States were chartered by the US Congress.

Through the end of the early banking period in 1862, state bank laws and regulations varied widely from state to state. Each state set its own requirements for bank founders as to the minimum amount of paid-in capital needed to open, the amount of reserves to hold against note issue and limits on liabilities. Most states had no laws governing the activities of companies doing a trust business until late in the 19th century. Many states did eventually enact trust company laws, but they were more liberal than state bank laws because trust companies were not considered banks. In some states, trust companies were permitted to incorporate under existing general corporation laws, so there was no oversight by state banking officials.

Trust Companies, Early Period

The first US companies to be granted trust powers were not, in fact, interested in banking because they were insurance companies. The first of these was the Farmers' Fire Insurance and Loan Co., which was incorporated in New York City in 1822. Its original charter from the State of New York granted the company the power to provide mortgage loans for farms, houses and factories; to insure properties against loss or damage; and to grant annuities. The new firm was also permitted to purchase and hold stock and foreign debt, but it was excluded from doing a banking business of any kind. Within a few months its charter was amended by the state legislature to allow the company to receive both real and personal property in trust for people and corporations.

The company's trust business proved profitable enough that in 1836 it abandoned

Certificate for one share in the Irving Trust Company, dated October 2, 1931.

its insurance business and changed its name to The Farmers' Loan and Trust Co. Eight years after the founding of Farmers, the New York Life Insurance and Trust Co. was established in New York City with similar powers. Within the next few years, insurance companies in Philadelphia and Cincinnati also received trust powers from their state legislatures. The Ohio Life Insurance and Trust Co. of Cincinnati did have a banking department and was empowered to issue bank notes, but this was an exception, as most trust banks did not issue paper money.

It would be 30 years after the founding of Farmers before the first US company was organized to transact exclusively a trust business. In 1853, the United States Trust Co. was established in New York City. This firm was historically significant because it was the only trust company organized during the early banking period that survived numerous bank runs and financial crises, including the Great Depression. It also became an important source of financing for railroads, other large industries and mergers in the early 20th century. By the 1880s and '90s it was managing the personal trusts of some of the wealthiest Americans such as William

The Knickerbocker Trust Company

The dramatic story of the 1907 failure of the Knickerbocker Trust Co. is filled with fraud, scandal and the death of both the institution and the man who ran it. The company was founded in New York City and chartered by the State of New York in 1884. Its founder was Frederick Eldridge, a friend and former classmate of the famous financier J.P. Morgan. Within less than 25 years of its founding, Knickerbocker had grown to become one of the nation's largest trust companies, with assets of $69 million (roughly $1.7 billion in today's dollars).

The US economy, which had been growing at about 5% per year for the three years leading up to 1907, had begun to slow, and the money supply was becoming tight. Gold inflows from Europe had been rising as insurers scrambled to pay claims resulting from the San Francisco earthquake in 1906. The Bank of England raised its discount rate to 6% in order to reverse the flow of gold, which caused a money shortage in the United States, pushing up interest rates by 125% in a few months.

At this same time, a slowing US economy caused a decline in commodity prices. Brothers Otto and Fritz Augustus Heinze decided this would be a good time to corner the market on the depressed shares of the United Copper Co. In order to finance their scheme, the brothers would need to borrow large sums of money to purchase United Copper shares on the Curb Market (later the American Stock Exchange).

Using United Copper shares as collateral, the Heinze brothers borrowed money from some small state banks and from the Mercantile National Bank, which was controlled by the Heinze brothers and business partners C.W. Morse and E.R. Thomas. However, the corner failed as the price of United Copper shares continued to fall. This meant the banks had to call in the loans because the collateral, United Copper shares, had fallen in price. When word leaked out, panicked Mercantile depositors caused a run on the bank as they attempted to withdraw their funds. The bank failed and was liquidated in January 1907.

The Heinze brothers, Morse and Thomas also controlled several trust companies in New York City, including Hudson Trust Co., Carnegie Trust Co., Van Norden Trust Co. and the Trust Company of America. They were tied to Charles Barney, president of Knickerbocker Trust, through a web of relationships and cross directorships.

Although Knickerbocker was not directly involved with the attempt to corner United Copper shares, it was well known that Charles Barney was a close associate of the schemers. In October 1907, rumors spread rapidly that Knickerbocker was in trouble, and panicked depositors started a run on the bank.

In 1907, prior to the creation of the Federal Reserve System six years later, the lender of last resort in New York City was the New York Clearing House, which was established by its member commercial banks. Trust companies like Knickerbocker were invited to join the clearing house, but on the condition that they raise their reserves against deposits. Doing so would have reduced their competitive advantage over the national banks that were required to keep 25% reserves against deposits, so the trust companies refused. Now the low deposit reserves held by trust companies worked against them.

In spite of this, New York City bankers, led by J.P. Morgan, attempted a rescue of Knickerbocker fearing that the run would spread to their banks. The rescue failed and Knickerbocker was forced to close before the end of the year. Along with Knickerbocker, two other trust banks also failed, The Trust Company of America and Lincoln Trust Co. Charles Barney, the President of Knickerbocker Trust, committed suicide in December.

The company did manage to reopen some weeks later, and in 1912 its assets were acquired by Columbia Trust, forming the Columbia-Knickerbocker Trust Co. The merged company was acquired by Irving Trust Corporation in 1923, which was in turn acquired by the Bank of New York in 1989.

The Knickerbocker Trust Company building in New York, 1904.

Library of Congress

Waldorf Astor, Jay Gould and Oliver Harriman. After nearly 150 years of operation, the company was acquired by discount broker Charles Schwab in May 2000 for $2.7 billion. In November 2007, Bank of America purchased US Trust from Schwab for $3.3 billion.

By the end of the early period in 1862, a few additional trust companies were formed in New York, Chicago and Kentucky. In the case of Chicago, they were insurance companies and a loan company with trust powers granted by the State of Illinois.

Trust Companies, Middle Period

The middle period of banking history in the United States, from 1863–1912, was the golden age of trust companies. US economic output grew 60% in the period between 1870 to 1900, led by manufacturing which continued to grow at an accelerated pace. The leading industries by 1900 were the production of machinery, iron and steel, printing and publishing and lumber. Agriculture now accounted for only 20% of the nation's economic output. By 1890, the US economy had become the largest of any country in the world.

The most significant factor that affected the development of the nation's trust banking at that time was a political event. In 1863 (and 1864), the US Congress passed the National Bank Act, which had a profound impact on the nature of US banking. At the time, there were more than 1,600 state chartered banks with a combined capital of over $430 million. This act was the first step in the creation of a national banking system. Banks could now apply for charters from the federal government and would fall under the supervision of the US Comptroller of the Currency. Significantly, this also meant that national banks would issue currency. A tax of 10% on state bank notes was added in 1865, making it unprofitable for state banks to issue currency.

But converting from a state chartered bank to a national bank came with a number of restrictions: higher capital requirements, higher reserve requirements, prohibition of real estate loans and the keeping of valuables (safe deposit boxes). In spite of these restrictions and others, by 1865 more than 1,600 national banks were chartered and within a few years only about 245 state banks remained in existence.

The rapid decline in the number of state banks created the opening for an expansion of new trust banks which operated under state laws. Before 1900, few states had laws governing trust banking, and in those that did the laws were far more liberal than the new national bank laws. As the nation continued to grow wealthy, trust company founders rushed in to provide services not permitted by national banks. In addition to trust services, the trust banks paid interest on demand deposits and offered safe deposit boxes and mortgage loans. Trust companies were also mostly unrestricted as to the securities they could invest in with their idle cash, both for themselves and their clients. Before the turn of the century, trust banks began underwriting and distributing stocks and bonds, providing short-term loans (call loans) to securities brokers and financing mergers and acquisitions. The securities underwriting business was in direct competition to the national banks and their securities affiliates.

Over the next decade, from 1865 to 1875, 95 new trust banks opened. Mostly concentrated in the eastern states, they had combined assets of about $720 million. By 1895, there were at least 250 trust banks with nearly $1 billion in assets operating in 45 states. Before the end of the 19th century, trust bankers began to take advantage of another restriction for national banks and state banks, which was the prohibition of branch banking. Some of the larger East Coast trust banks even began to establish branches in Europe.

Trust companies had become large enough by the 20th century that they were serious competition for the national banks. In order to get around restrictions that favored trust banks, many national banks began to form alliances with larger trust banks, including cross board memberships.

Even though many states, particularly in the North, began to enact laws regulating the activities of trust banks, their growing numbers continued uninhibited through the first decade of the 20th century, to between 1,000–1,500 nationwide. The number of trust banks is not exact because prior to the early 20th century they were not required to report to most state banking departments. Therefore, the number of firms conducting a trust business is not known for certain. Many were likely just state banks with the word "trust" in their name.

During most of the middle period of US banking, trust company failures were infrequent, but that would change with the Panic of 1907 and the failure of several large trust banks in New York City. Although the financial damage was mainly confined to the United States, it was one of the most severe financial crises to date.

Trust Companies, Modern Period

The modern period of US banking began in 1913 with another significant event that profoundly changed the way banking was done. After 132 years from the opening of its first bank, the United States finally established a central bank — a lender of last resort — with the passage of the Federal Reserve Act. With the Act came several changes to US banking laws that allowed national banks to offer some services previously prohibited, such as trust businesses. The number of trust banks continued to rise to more than 2,000 by 1920, but the differences between trust banks and commercial banks was gradually disappearing. Both trust banks and commercial banks were now offering similar financial services.

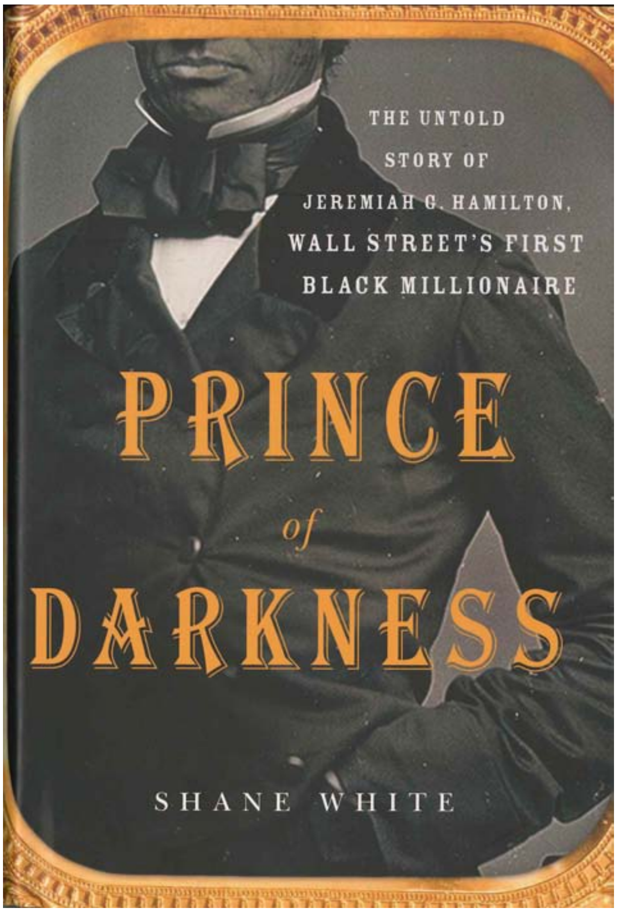
The Panic of 1907 originated with New York City trust companies and was a primary reason why the US Congress finally enacted the law creating the Federal Reserve System. The most famous of the failed trust banks was the Knickerbocker Trust Co. (*See sidebar.*)

The trust company failures in 1907 led the United States into a banking panic and deep recession the following year. The stock market declined 37%, commodity prices fell 21% and industrial production fell 11%, more than during any other financial crisis up to then. Unemployment rose from 5% to 8%, and bankruptcies that year were the second highest in volume to date.

Over the next several decades, trust companies continued to exist, but they were no longer different from commercial banks. Many former trust banks were acquired or merged with national banks during the Great Depression, and many of those that remained independent failed and were liquidated. $

Bob Watt lives in Chicago and is retired from the semiconductor industry. He has been a collector of US bank stocks for the past 20 years.

Prince of Darkness: The Untold Story of Jeremiah G. Hamilton, Wall Street's First Black Millionaire



By Shane White
St. Martin's Press, 2015
317 pages, $27.99

Virtually unknown to historians of any stripe, Jeremiah G. Hamilton did indeed conduct business on Wall Street and some contemporaries referred to him as the "Prince of Darkness." The veracity of the rest of this book's intriguing title is, however, doubtful. Author Shane White, the Challis Professor of History at the University of Sydney, is the first to admit that he could not ascertain Hamilton's birthplace or parentage. Hamilton might have been born in Richmond, Virginia. Or Haiti. Or Puerto Rico. Or maybe even India (though White doubts that one). Hamilton could have been born free. Or enslaved. If the latter, he might have run away. Or been manumitted. Or even purchased his freedom.

Most of what White was able to discover about Hamilton comes from court cases, newspaper diatribes or public records. Those sources, however, provide conflicting information and no photograph or portrait of the man has survived. (Hence the brilliance of the cover design.) In the federal census, Hamilton was counted as "white," probably because his wife, a young woman of Euroamerican descent, answered the door each time a census taker rang the bell of his fine home. To many of his neighbors, including those who tried to lynch him during the 1863 draft riots, Hamilton was clearly black. More careful observers thought he was biracial, a "mulatto" in the parlance of the day. Presumably to "pass" as a "Spaniard," Hamilton cut his hair, which some contemporaries described as "woolly," and donned a wig with straight, black hair. His nose and lips, however, convinced many that he was African American.

Hamilton's net worth is just as slippery. Although more than one contemporary labeled him a "millionaire," they probably overestimated his net worth, as outside observers typically do because assets are publicly displayed more readily than liabilities. At Hamilton's death in 1875, the assets listed in his probated estate did not total $100,000 in current dollars, even at generous valuations. (The author also provides values in today's dollars, but ones that most economic historians would consider high estimates because they are based on the wages of unskilled workers.) Although it is possible that Hamilton re-titled assets before he died, White notes that "the end came quickly" (p. 312) so it is doubtful that Hamilton gave away significant amounts of property in his final hours. White assumes, without a shred of evidence, that Hamilton, a Wall Street broker, must have owned large quantities of stocks and bonds not listed among his other assets. That claim exposes other weaknesses in the narrative, like the fact that White was not able to ascertain exactly how Hamilton made his fortune, whatever its size.

Hamilton first appears in the historical record in the infamous aftermath of his unsuccessful attempt to pass counterfeit coins in Haiti. Thereafter, he reappears sporadically as a sort of sophisticated con man so adept at defrauding marine insurance companies that the insurers eventually refused to insure any ship or cargo associated with him. Hamilton also speculated in real estate on Long Island and upstate New York but lost those properties when forced to claim bankruptcy in the early 1840s. Many then considered him an unsavory character, but White rightly points out that most antebellum New Yorkers were bigots who supported Manhattan's Jim Crow-like racial segregation laws, so most people literally pre-judged business controversies involving the "Prince of Darkness." Extremely intelligent and well read (parts of his personal library and library checkout records thankfully survive), Hamilton understood that he must engage in what today would be called "spin control," so he cultivated a long relationship with newspaper man Benjamin Day, who often defended Hamilton in the pages of his penny daily, the *New York Sun*.

Unfortunately, the exact relationship between Day and Hamilton remains obscure. Editors of competing papers

claimed that Hamilton owned at least part of the *Sun*, but White could not substantiate those claims. White also points to the intriguing possibility that Hamilton was intimately involved in the rise of Cornelius Vanderbilt. Again, however, the evidence is thin and bound to be controversial. It is also not clear if Hamilton was merely a stockbroker, as some described him, or if he was really what today would be considered a hedge fund manager.

A business or financial historian ought to build on White's work to see if he or she can find new sources or reinterpret the ones that White has already (painstakingly) discovered. White is a fine cultural historian, but clearly his grasp of business and financial concepts is lacking, as repeatedly shown by his clumsy language in sections dealing with insurance and banking in an otherwise extremely well-written book. The cultural components of the book, from New Yorkers' attitudes toward interracial marriage to beliefs about hair texture and skin complexion, are absolutely fascinating and well worth the price of admission. $

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The Woman Who Dueled with Aaron Burr

continued from page 15

Jumel was a litigious woman, too, who was not beyond adjusting facts with abandon in order to make her case. In a way it is fitting that her estate would be tied up in the courts for years, reaching the US Supreme Court twice. The Jumel will case would be compared by contemporaries to Jarndyce and Jarndyce, the endless lawsuit in Charles Dickens' *Bleak House*.

Yet Jumel succeeded on her own terms. She brought up a niece, great-niece and great-nephew, arranging good marriages for both the girls. She died a wealthy woman, safe under her own roof. She had herself buried imposingly in a granite crypt. At least three streets in Manhattan and Saratoga Springs proudly bear her name.[4] Her cottage in Saratoga is still pointed out to tourists, and her New York City mansion survives as a museum. In a quiet corner of Washington Heights, we can enter her house, admire her furnishings, scrutinize her portrait and marvel at the life she made. $

Margaret A. Oppenheimer holds a Ph.D. in art history from New York University. This article draws in part on material adapted from in her most recent book, The Remarkable Rise of Eliza Jumel: The Story of Marriage and Money in the Early Republic *(Chicago Review Press, 2016), with permission of the publisher. All rights reserved.*

Notes

1. "The Great Jumel Sale." *New York Herald.* April 4, 1888. 8.
2. "Obituary. Madam Eliza B. Jumel." *The New York Times.* July 18, 1865.
3. Two such leases survive in the Jumel Papers at the New-York Historical Society, in box 2, folder E, and box 3, folder G.
4. Jumel Terrace and Jumel Place in the Washington Heights neighborhood of Manhattan, and another Jumel Place in Saratoga Springs.

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

TRIVIA QUIZ

By Bob Shabazian

1. The Museum's "Worth Its Weight" exhibit features the world's oldest known gold coin. From when does the coin date?

2. Why was Lillian Vernon's listing on the American Stock Exchange groundbreaking?

3. Alexander Hamilton's portrait currently appears on the face of the $10 bill. What image is depicted on its reverse?

4. What was the outcome of the Fair Labor Standards Act of 1938?

5. What Congressional legislation led to the formation of the Federal Deposit Insurance Corporation (FDIC)?

6. In what regions did the three American gold rushes take place?

7. What financial leader is credited with "democratizing" investment, given his innovations aimed to assist individual investors?

8. In what city was the Bank of the United States established?

9. How many Federal Reserve districts are there?

10. Whose portrait is on the $2 bill?

1. Circa 564–550 BC. **2.** It was the first company owned by a woman to be listed on the Amex. **3.** The US Treasury building. **4.** It established the first minimum wage at 25 cents an hour and limited the work week to 44 hours. **5.** The Banking Act of 1933. **6.** North Carolina/Georgia, California and Alaska. **7.** Charles "Chuck" Schwab. **8.** Philadelphia. **9.** 12. **10.** Thomas Jefferson

The Numismatist
THE WAR OF 1812
Milestone Anniversary
The Waterbury Mint
Continental Currency Dollar Coin

WORTH ITS WEIGHT

Gold from the Ground Up

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